THE MAGAZINE OF WALL STREET

For the Practical Investor

Vol. Sixteen | JULY 10, 1915 | No. Six

How Fast Our Wealth Is Growing

Why Liquid Capital is Piling Up

Saving and Spending—An Index to Capital

BY G. C. SELDEN.

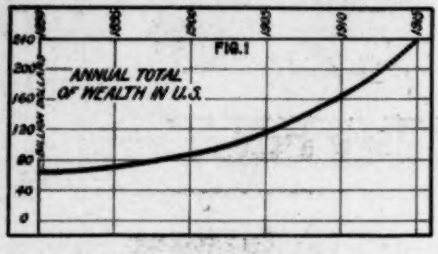
IT is a peculiarity of the human mind that it is only in retrospect that it sees things in their true relations. We can judge the future only by the past—that much must be admitted; but we are apt to make the grievous mistake of looking upon the past as static instead of dynamic—of assuming a continuation of present *conditions,* instead of the continuation and development of present *tendencies.*

It is perhaps for that reason that none of us—I doubt if there is a single exception—has any adequate comprehension of the tremendous wealth-producing capacities of the modern industrial organization. It has grown up so gradually around us, a new machine here, an improved method there, a better material in another place, that we are only partly conscious of the change—like the frog which can be boiled alive without waking up if only the water is heated up slowly enough.

Census Sheds Light.

The Census Bureau has just issued a bulletin called "Estimated Valuation of National Wealth, 1850-1912," which when analyzed sheds much new light on the rapidity of the accumulation of wealth in the United States. With that delightful spirit of leisure which permeates nearly all Government departments, the 1912 figures are given out in the middle of 1915; but by observing the tendencies shown we are able to project the figures forward to the present year with a considerable approximation to accuracy.

First, as regards our share of the world's wealth, the estimated value of all our tangible property for 1912 was $187,739,000,000; that of the entire British Empire—United Kingdom, Canada, Australasia, India, South Africa, etc.—was, according to Sir Robert Giffen, $108,279,000,000 in 1903; Germany in 1908, Steinman-Bucher, $77,-



864,000,000; France in 1908, Edmond Théry, $55,391,000,000. Here, of course, lies our real power in world-politics—our vast resources as compared with other nations.

Previous estimates of the wealth of the United States were made as follows:

1904	$107,104,000,000
1900	88,517,000,000
1890	65,037,000,000
1880	43,642,000,000

Before that the estimates, which go back to 1850, are less reliable. In fact, the figures for 1880 are perhaps somewhat vitiated by a remnant of Civil War inflation.

The remarkable fact about these figures is the constant increase in the *rapidity* of growth. Figure 1, for example, shows the approximate curve of the annual total of our wealth, and indicates our present wealth to be something like $240,000,000,000. But in Fig. 2 we find that the approximate annual *increase* of wealth rises much more rapidly. Where 20 years ago the annual increase in our wealth was about $2,300,000,000, it is now in the neighborhood of $20,000,000,000 yearly—a figure which merely stupefies us.

Going still further, we find that not only does the increase grow greater year by year but even the *per cent. of increase* each year keeps growing. Fig. 3 shows this, as closely as it can be approximated. From 1890 to 1900 our wealth increased at the rate of about 3.1 per cent. a year; from 1900 to 1904, about 5.0 per cent.; from 1904 to 1912, 7.3 per cent.; and in 1915 it is doubtless growing at a rate of at least 9 per cent. yearly. The last figure allows for some reduction on the ground of relatively dull business since 1912.

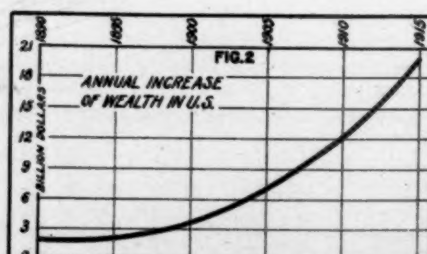
What This Wealth Consists Of.

The first thought of most of us is likely to be, what is all this "wealth," and why do I get so little of it?

It consists of all the *tangible* real and personal property in the country. It does not include mere evidences of indebtedness or of partnership, like mortgages, bonds, notes, and stocks, as this would result in duplication. All the property of a railroad is included, but the bonds and stocks are not included because they serve only to show who owns that property and the character of the claims the owners have on it.

If this tangible wealth is now increasing at a rate of about $20,000,000,000 a year, what becomes of it? In the first place, a very large part of it goes into the increased valuation placed on real estate, exclusive of improvements. The census figures do not separate real estate and the improvements thereon. The total for both in 1912 was $110,676,000,000. There is no way of knowing just how much of this represents land, in city and country, but a rough guess would be rather more than one-half.

The increased value of land is a monopoly value. It does not represent wealth that has been produced by labor, and could not be diverted into the purchase of stocks and bonds, for example. *Produced wealth,* then, is now increasing at a rate of perhaps $14,000,000,000 a year, out of the total of $20,000,000,000. We have to remember, too, that our population is increasing about 1½ per cent. a year. After this new population is given its proportionate share of new wealth, we shall have left about $12,000,000,000 a year for produced wealth which actually goes toward making people richer.



Where Liquid Capital Comes From.

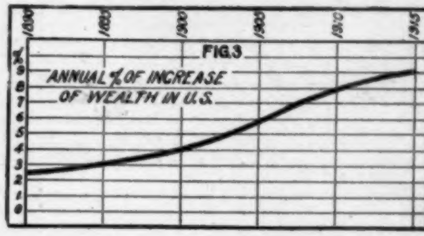
Now there are two avenues into which this $12,000,000,000 more or less of new wealth may flow. It may be put into things for immediate use and enjoyment, such as better houses, more and better personal property, automobiles, yachts, jewelry and so on; or it may be *saved,* as we say, and invested—that is, put at the service of men who will use it for the production of still more wealth by building factories or railways or engaging in various business enterprises, all of which must produce more wealth or soon give up the ghost.

That part of our new wealth each year which is saved and invested becomes capital; and while it is lying in the banks awaiting investment in business enterprises, it forms a fund of liquid capital, which may be directed by its owners into any one of a thousand different channels.

It is perfectly clear that we could save and invest the whole of this $12,000,000,000 if we chose. If everybody in the United States would simply go on living next year on just the same scale as this, working just as hard, earning just as much, but spending only money enough to "keep up" his property, so as to maintain everything at the same value as now, and putting all the rest of his earnings in the bank, the result would be that about $12,000,000,000 of liquid capital would accumulate during the year and would gradually find its way for the most part into various forms of permanent investment.

Only a few people ever do that, of course. Most of are always wanting more and more. We are always planning ahead to buy this or that addition to our belongings as soon as we can get the money. But there are some people who save all the time, and there are a great many more who spend freely as long as everything is going well, but begin to save when their prosperity is checked or threatened by adverse conditions of some kind.

I doubt whether statistics have ever been compiled to show conclusively whether people save more money in hard times or in good times, but it is generally believed that they save more in hard



times. This may perhaps be open to doubt; but it is certain that they save more *after* a period of hard times than they do before it. Dull business has a chastening effect, so that for several years after prosperity begins to return people are still much more cautious in their expenditures than they were before.

The first effect of dull business, or of a shock to confidence, is that enterprise, and therefore, earnings, are checked, while expenses cannot be checked so quickly; so that both liquid capital and the requirements for it are reduced at about the same time. Liquid capital decreases because for the moment the people can save less; and requirements for it fall off because business at once becomes less active.

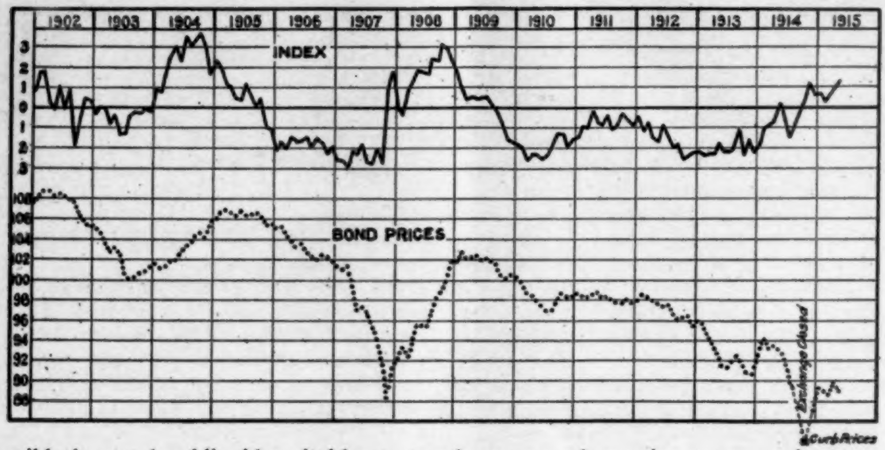
The next step is that saving begins to increase, regains its former normal level and surpasses it; while, owing to the continued dullness of business and the feeling of caution among business men, the demand for liquid capital continues relatively small. The result is that liquid capital piles up in the banks and short-time interest rates fall very low.

An Index to Liquid Capital.

The diagram herewith shows this process since 1902. The upper line, marked "Index," shows the relation between the supply of liquid capital and the demand for it. It would be of little use to show the supply without the demand, because with the constant growth of the country the supply would naturally grow right along anyway. The important fact is the relation between the supply and the demand.

A second line is added showing the general course of bond prices because of the intimate relation between bonds and the supply of liquid capital.

The panic of 1903 being comparatively



mild, the supply of liquid capital began to gain on the demand in the summer of 1903, even before that panic culminated. Capital continued to accumulate until the fall of 1904, when activity of general business and larger offerings of new securities began to use up the accumulation.

Pretty much the same thing happened after the panic of 1907, and in a smaller way after the minor liquidation of 1910.

The accumulation of capital in 1911 was notably small, and the result was that bonds rose scarcely at all and the stock market much less than after 1903 and 1907. (A diagram showing the movement of stocks appeared on page 137, issue of May 29.)

Down to the beginning of the European War these forces were working themselves out in the usual rhythmical way. The depression of 1913 was followed by renewed accumulation of liquid capital, stronger and more promising than in 1911, and the bond market began to show marked improvement. The war caused only a temporary setback to the accumulation of capital, less than would naturally have been expected; and since the demand for liquid capital fell off even more than the supply, our index line scored a considerable gain during the year 1914.

The price of bonds depends on the supply of capital all over the world, and even more upon capital for permanent investment than upon liquid capital; hence very low prices were made while the Stock Exchange was closed and the advance now is of a somewhat hesitating and doubtful character.

It will be seen that, according to our index, we are now better off in the matter of supply of liquid capital in proportion to demand than we have been before since early in 1909. So far this condition is due in part to fear—business men are afraid to borrow freely to extend their business, and lenders are afraid to lend except on highest grade securities.

This stage of the process, however, will gradually pass and the expansion of business and issue of new securities will for a time go hand in hand with increased saving. It may be that the peculiar conditions growing out of the war may prevent our index line from rising as high as it did in 1908 and 1904. This is not a prediction, however, for the problems of the war are too new and difficult to permit any predictions except of the broadest and most general character.

It will be noted that the rise and fall of this index predicts, in a general way, the sort of business conditions we are to have for a year or two in advance. That is, the small supply of liquid capital in 1903 predicted dull business for 1904, while the large supply in 1904 predicted growing prosperity during 1905, and so on.

From this point of view, the index leaves us little room to doubt that improving business conditions will continue for at least a year from the present date.

Rates Reversed Inside of a Year

The Situation in Foreign Exchange

Will Rates Drop Further?—Liquidation of American Securities

By SIEGFRIED STRAUSS

BEFORE the first of August, 1914, London was universally recognized as the financial center of the world, the only free market for gold, and consequently London foreign exchange quotations were the standard for world commerce. Now New York has taken London's place, and it remains to be seen whether London will regain its position as the world's financial center after the war.

The present New York quotations on the currencies of the six European world powers show enormous depreciations, although these countries all claim to be on a gold basis. A year ago quotations were about normal. During the last week of July, 1914, the huge demand for remittances to Europe had disastrous consequences for our currency, the dollar. Europe, on the threshold of war, demanded payment of her credit balance, which had been established through sales of securities, the maturing of American obligations, big exports of merchandise to the United States, etc. United States debtors to Europe were compelled to pay unheard of rates for remittances to London, Berlin and Paris. In the last week of July, 1914, one pound sterling was worth $6.35, against a normal rate of $4.86; four marks $1.04, against 95 cents, and one dollar brought only three francs twenty-five centimes, against five francs and eighteen centimes in normal times. The only remedy, the export of gold to Europe, was for a time practically impossible as insurance was difficult to procure, and besides New York financial circles were afraid of denuding the gold reserves of the country, and advocated an embargo on the export of gold. Things looked gloomy for the United States, when Europe went to war nearly a year ago.

What a change in eleven months! The New York closing quotations for cable transfers to London, Berlin and Paris June 30, 1915, were 4.77, 4.81 and 5.69. Pound sterling showed a depreciation of nearly 2 per cent. from the gold parity, marks 15 per cent. and francs 10 per cent., while quotations for Italy, Austria and Russia were at a discount of 20 per cent., 25 per cent. and 27 per cent., respectively.

The reasons for these phenomenal changes are obvious. The United States, the only non-belligerent world power, was called upon to supply Europe with foodstuffs, raw materials and merchandise. In the eleven months of the fiscal year 1914-1915 the exports of the United States totaled 2½ billion dollars, the imports 1½ billion dollars, leaving an export surplus of 1 billion dollars, for which the world, and for all intents and purposes Europe, is indebted to the United States. American tourists, who used to spend very large amounts of American money in Europe, had to stay away, and the expected rush of European holders of American securities to sell did not occur. Consequently, there was no offset against Europe's adverse trade balance with this country, and foreign exchange quotations declined until they reached the present record level.

What Next?

Now, what are the warring nations of Europe going to do about it? The combined exports of the United States to Great Britain (including Canada) and France exceed her combined im-

ports from these countries by over 800 million dollars; this refers to the first ten months of the fiscal year for which detailed figures have been published.

As far as Germany is concerned, no reliable figures are available, as her imports from the United States went through the neutral countries surrounding her. A fair estimate may be arrived at as follows: The exports of the United States to Holland, Italy and Scandinavia in the first ten months of the fiscal year 1914-1915 were about 250 million dollars larger than in the same period of the previous year, of which excess probably about sixty per cent. went to Germany. Deducting from these 150 million dollars Germany's export surplus to the United States for the ten months, viz., 55 million dollars, we arrive at an amount of about 100 million dollars for which Germany is indebted to the United States.

Germany cannot get any more supplies from the United States, and the discount at which marks are quoted in New York concerns Germany only from a sentimental point of view as hurting her prestige, but it does not constitute an actual disadvantage. England and France are in a different position. They have to pay for the huge supplies they are getting from the United States in dollars, and unfavorable rates of exchange raise the price of the goods purchased and mean heavy losses. Russia is also a large purchaser of American goods, and Italy also since she entered the war.

There are only three ways to prevent foreign exchange quotations from dropping further, and England is trying all three: (1) Shipment of gold to the United States; (2) sales of American securities held in England; (3) placing English government loans in the United States. Germany did not ship any gold, and France very little, but they sold some American securities and placed small government loans. As far as shipments of gold are concerned, England has reshipped to the United States nearly all the gold which was sent to Canada last fall, and will send more. But Europe cannot part with much more of her gold, which is needed as reserve for her huge amounts of paper money. The total gold holdings of the state banks of Germany, England, France and Russia amount to 2½ billion dollars, which, although a huge sum, is none too large a reserve for the outstanding paper money. The president of the German Reichsbank declared that it is more important for Germany to have a strong gold reserve than to raise market quotations in New York to a normal level by exporting gold. England and France might send some gold, but they cannot spare enough to stop further drops in pound sterling and franc quotations.

It is not so easy to induce Englishmen, Frenchmen and Germans to sell their safest investments at the present time, viz.: Their American bonds and stocks. But some pressure is brought to bear by the governments of Europe, and undoubtedly some liquidation of American securities from European holders is taking place.

The government of France through the Rothschilds in Paris offers to buy certain American bonds held in France, which in turn are to be pledged with American banks for collateral against a loan. A similar proposition was made by a member of parliament in London, and the fact that the new British war loan will bear 4½ per cent. interest is believed to induce certain English holders of American securities to exchange them against the new British government loan. This is certainly the best way to raise the quotations of pound sterling and francs to a more normal level, but it is doubtful whether the European sales of American securities, which have taken place in the last two or three weeks, will be continued for any length of time.

Foreign Loans Here Difficult

The placing of foreign government loans has been tried by some neutral European nations, Germany and France, but only on a small scale, and not always with great success. The placing of part of the British war loan in the United States was proposed in the

House of Commons, but the English prime minister, Mr. Asquith, dismissed the idea to borrow abroad as impracticable because the amount received would be infinitesimal, as he expressed it. He realizes that a large loan of any belligerent power could not be successfully placed in the United States, and he urged the British public to curtail the consumption of imported luxuries, such as tea, wine, sugar, etc., which would react favorably on sterling quotations in New York.

The fact that American holders of the British war loan are subject to the British income tax, which amounts at present to 12½ per cent., makes the placing of the loan in the United States practically impossible. But even if the British war loan were to be made free of income tax to the American investor, it would not be very attractive to him. As long as he can buy a 4½ per cent. New York City loan at 102, a 4½ per cent. British war loan at 100 will not induce him to invest any large amount of money abroad. It is reported that it is planned to place 100 million dollars of the British war loan in New York, but it seems very doubtful whether this plan can be carried out successfully, unless unusual inducements are offered.

The large orders for ammunition, which have been placed in the United States through the Allies, will swell our exports during the coming months to still larger totals. It is estimated that the monthy shipments of ammunition to Europe will average 100 million dollars a month. The shipments of foodstuffs and cotton will soon start. The exporting nations of Europe are crippled, and will be unable to send merchandise in quantity to this side of the Atlantic.

The surplus of exports from the United States will steadily grow larger and larger, and as long as the war lasts there is absolutely no possibility that the quotations for the pound sterling, franc, lire and ruble will return to a normal level. It is very likely that they will drop further. The quotations for mark and kronen are more or less artificial, as no direct trade between the United States and Germany and Austria exists at the present time.

Why Public Utility Securities?

SO LONG as cities continue to grow, their gas, electric and transportation properties will grow with them. In many states these properties are regulated and protected by Public Service Commissions.

¶ Their securities afford the highest return with the lowest risk of any of the standard investments.

¶ The most successful gas, electric and transportation companies are those which, through centralized control, participate in:

(a) Expert management;
(b) Highest Engineering skill;
(c) Wholesale purchases of supplies;
(d) Financial co-operation and credit.

These benefits all result in low operating cost, increasing business, efficient and progressive service and reasonable rates to consumers.

¶ The Investors' Service Department of this publication will place you in touch with reliable firms offering desirable public utility issues. Write for July list B-2.

MONEY - BANKING - BUSINESS

What Thinking Men Are Saying

About Financial, Investment and Business Conditions

Mortimer Schiff on Our Need for Capital.

WHILE the price received for the recent offering of New York City bonds was not so high as officials had expected, it must be considered fairly satisfactory in view of the conditions under which the sale was made. The $46,000,000 fifty-year corporate stock brought an average price of 101.25, making the yield 4.437 per cent., while the $25,000,000 of serial bonds due from 1916 to 1930 brought 101.3, or a yield of 4.297 per cent.

So long as New York City is able to borrow on a little better terms than the British Government, which is floating its latest loan at 4½ per cent., there is no special reason to complain of the result. Only once before, however, has the city had to pay such high interest for its money. The yield on bonds sold in recent years has been as follows:

1915	4.44	1909	3.96
1914	4.18	1908	4.29
1913	4.49	1907	4.39
1912	4.21	1906	3.65
1911	4.20	1905	3.47
1910	4.15	1904	3.40

Prices of our bonds are affected by the world-price of capital, even though Americans are reluctant to lend abroad. Mortimer L. Schiff, of Kuhn, Loeb & Co., does not believe that American investors will supply any great amount of capital to Europe, no matter how great the needs of foreign nations may be:

It must be borne in mind from the start that we ourselves are not as yet under normal conditions a lending nation. We still need large amounts of capital for our own purposes and a very considerable portion of our own securities are still held abroad, for which we must be prepared eventually to make payment, either by repurchasing them or by meeting them when they mature.

In addition our investing public is still in large measure timid about investing money in foreign countries and prefers American securities to such an extent as at times to make the difference of return between foreign and domestic securities of similar quality offered in our market seem almost absurd.

THE JITNEY.

—Brooklyn Eagle.

The banker is of course dependent on his clients, the ultimate investors, and while he can do much by a proper presentation of facts to educate them, he is forced to adopt their view and can successfully offer and place only securities which meet with their unqualified approval.

* * *

"Riot of Speculation" Possible.—Benj. Strong, Jr.

ALTHOUGH the interest rate on long-term bonds is high, our banks hold an enormous fund of idle money. Benjamin Strong, Jr., Governor of the New York Federal Reserve Bank, at the state bankers' convention:

The Reserve Act made careful provision for the gradual transfer of reserves by the member banks, but permitted the reduction in required reserves to take effect at once, so that at present large excess reserves are held by member banks, a part of which within the

next two and one-half years must be transferred. The amount of these later transfers and the amount of funds required to eliminate the "float" from reserve balances, will make quite a hole in present excess reserves, and should be allowed for in future calculations.

The Federal Reserve Act on November 16 released cash and deposited reserves in the national banks, amounting to $465,000,000. The Comptroller's report of March 4, showing the condition of national banks, disclosed that this excess reserve had increased to $734,000,000 held by the national banks alone. It may be assumed that another very large excess reserve, but probably less than this sum, is also held by State institutions.

There is, in fact, held in trust by the banks of this country a credit of such vast proportion that its custody and use impose a huge responsibility. The situation is one that might easily lead to a riot of speculation, inflation and exploitation, if the bankers were so unwise as to permit it. We may, on the other hand, employ this vast credit to meet the demands of the commerce of the world at a time when we alone, of all the great nations, are able to fill the gap in the world's credit system which has been created by the European war.

What now seems to be taking place all over the world is the general mobilization of the gold reserves by every effective means, so that each party to the conflict may with the greatest degree of security expand credits to the greatest degree possible.

* * *

What the War is Doing to us.

THE effects of the war are so varied that they are not easily summarized. We quote two efforts in this direction, differing somewhat in style and method, but both arriving at an encouraging conclusion:

A. B. Leach, President Investment Bankers' Association: First, the banking position of this country, as far as gold reserve is concerned and as far as circulating medium is concerned, is in the strongest position it has ever been and prepared to carry on the commercial business of this country as never before.

Second, during the war, and even at its close, the commercial and manufacturing business of the Old World must be very heavily handicapped. In a measure a wide difference between the price of labor and the price at which articles can be purchased in Europe and this country will be more nearly equalized. Heavy taxation, higher cost of living, a very large depletion in the labor supply are all going to work to the advantage of this country.

Third, this country is to be very largely benefited, I believe, through the deposit here of moneys and securities, which would be sent here for safekeeping or to escape the taxation which, as before stated, I believe to be certain. It will also be benefited through selling commodities at high prices and buying securities back.

Fourth, American business and American bankers must face today world-wide commercialism and world-wide banking. We have been in the past provincial; we must become, if we are to take our "place in the sun," international bankers and international merchants.

New York "American": The cash price of wheat yesterday was $1.42 a bushel. On the same day last year, the price was 97 cents. This means that the 950,000,000-bushel crop now promised will be worth to American producers $427,000,000 more than last year's crop.

Corn sold yesterday at 85 cents against 77 cents last year. The promised crop of 2,600,000,000 bushels means an increased value to the American producers of $208,000,000.

Oats are selling at 9 cents a bushel more than last year. The indicated crop is about 1,100,000,000 bushels. American farmers have a prospective increased profit of $99,000,000 from oats.

Copper sells at 20⅛ cents a pound this year, against 13½ cents last year, an increase of about $150 a ton. The United States production of copper last year was 555,000 tons. The increased value of copper upon last year's output would be $83,250,000, but this year's production will be vastly increased over last and at the higher price.

Steel billets are $2 a ton higher than last year, and our production last year was over 31,000,000 tons. This year's steel production will also exceed last year's, so that steel producers will receive at least $62,000,000 more than they did last year.

Cotton is 4 cents a pound less than last year, owing to Great Britain's unlawful blockade of our neutral commerce. Last year's production was 14,000,000 bales. This means a loss of $280,000,000 to Southern planters.

The American dollar is now the only paper money in the world on a par with gold the world over.

The trade of the United States with foreign nations for the fiscal year 1915 will show a balance in favor of the United States of more than $1,000,000,000.

These figures indicate why the owners of American securities abroad are loth to sell them. The United States will, as a nation, have unequalled and unprecedented prosperity and before many months pass.

* * *

Some Views of Railroad Men.

JAMES A. PATTEN is said to be a bear on wheat, because of the prospects for a big yield. The crop prospect is, however, helping some of our leading railroad men to view the future more cheerfully:

President Bush, of the Missouri Pacific: Never before has the soil had so much moisture, and while it has injured the wheat in

A BIG BUSINESS—BUT ON CREDIT.
—Des Moines Register and Leader.

some places, particularly in the bottoms, it has helped the other railroad revenue crops immensely. Missouri Pacific proper will this year report record-breaking earnings. Had it not been for the unwelcome and unexpected paralysis to business in the Southwest penetrated by the Iron Mountain Railway, the present year would have been a record-breaker for the system. The Missouri Pacific has reported favorable increases in both gross and net, while the Iron Mountain for unavoidable causes produced by the war has had a very unsatisfactory year. Both properties are, however, in good physical condition, and if the expected heavy traffic comes the Missouri Pacific will be well prepared to handle it.

J. H. Crawford, Freight Traffic Manager D. L. & W.: People have come to realize that railroads, like individuals, have to have a living wage.

There is among railway men a growing faith in the ability and fairmindedness of the Interstate Commerce Commission. The clearing away of various questions of authority which were in dispute has served to smooth the relationship between the roads and the commissions. As for the various state commissions, not so much can be said. These separate bodies, all making separate decisions on local questions, are a hard problem from the railroad standpoint.

In this section of the country, there has been a distinct improvement in freight earnings over what was expected six months ago. It seems that, with business reviving in many lines and the promise of another season of huge crops, this improvement should be steadily continued through the year.

F. D. Underwood, President of the Erie: Until increased traffic is forthcoming there will be, I fear, small improvement in existing conditions, although the harvesting of a good crop, such as now seems in prospect, will undoubtedly help much.

* * *

Our Securities Held Abroad Overestimated.

A RECENT investigation by L. F. Loree, president of the Delaware & Hudson R. R., covering 145 American railroads, shows that holdings of our securities abroad are smaller than had been supposed. The following table summarizes the situation as estimated on the basis of Mr. Loree's figures:

R. R. Securities.	Par Value.	Approximate Price.	Market Value.
Stock	$795,100,000	50	$397,550,000
Notes, &c. ..	62,300,000	100	62,300,000
Equipments ..	18,100,000	100	18,100.000
Bonds	1,700,000,000	90	1,530,540,000
	$2,576,100,000	...	$2,008,490,000
Held here ...	150,000,000	90	135,000,000
Total	$2,726,100,000	...	$2,143,490,000
Industr'ls, &c.	682,000,000	75	471,000,000
Grand total.	$3,408,100,000	...	$2,614,490,000

The item "Held here" refers to securities owned by foreigners but left in the names of New York banking houses. It is quite possible that $150,000,000 may be an underestimate of the amount of securities so held. The figures for industrials and miscellaneous securities are also uncertain. But the compilation shows plainly that previous estimates of $5,000,000,000 or over have been excessive.

* * *

Further Foreign Selling Will Be Gradual.

THE logic of the situation is that foreigners must continue to sell American securities from time to time in order to buy war bonds, but all fears of hurried liquidation are past. A. J. Hemphill, chairman of the Board of the Guaranty Trust Co., said recently to the Academy of Political and Social Science at Philadelphia:

The conclusion of the war will create new

WILL SOMEBODY HAVE TO BACK UP?
—Nashville Tennessean.

conditions and the greatest demand will then be made upon our financial America. The destruction and wastage of capital occasioned by the war has been estimated on the basis of a year's duration at $40,000,000,000; and while it may not be necessary to restore all of this at once, yet, from present indications, the demand on us will be enormous. First, there will be the call on our merchants to furnish materials in connection with the rehabilitation or rebuilding of the devastated country; and secondly, we will have to give credit either through making direct loans or through the re-purchase of American securities held abroad.

From present indications the foreign investors will part with our securities slowly and will be tempted to liquidate only at high prices. It is more than probable that several of the foreign countries will ask us for some of our gold in order that they may restore or build up their gold reserves. These demands upon our financial resources seem to presage more than an active and firm money market.

There is no doubt that, should we continue to practice economies and follow the sound business methods which we have recently pursued, we will not only have abundant resources for our own prosperous business, but also be able to take care of the reasonable demands of other nations.

* * *

Effect of Big British Loan.

THE general expectation is that the gigantic British 4½ per cent. loan will result in heavy liquidation of other securities by English investors who subscribe to it for patriotic reasons, so that security yields everywhere will necessarily adjust themselves to the new basis. The other side of the argument is that American capital is accumulating while our new capital issues are small—only $768,000,000 for the past six months, against $1,082,000,000 for the corresponding months of 1914, $1,127,000,000 in 1913, and $1,507,000,000 for the same months of 1912. Where is this accumulating capital to find an outlet? How long can cheap money and high bond yields trot side by side?

Here are the two sides of the case as presented by investment houses:

Clark, Childs & Co.: The low basis at which the New York City bonds are sold is not a surprise. We are going to see a poor market for high-grade, low-rate bonds, which should be accompanied by an active market in stocks that are reasonably secure and supply chances of increased return. Now that the city operation is out of the way, stocks should resume their activity, and should be bought on the weak days.

We look for a decided advance in money markets all over the world. Rate of interest on the British national debt cannot be doubled without this effect. England is on a 5 per cent. basis, with every prospect of advance. It was 2½ to 3 per cent.

John H. Davis & Co.: It seems reasonably certain that for a considerable period capital will be timid and will seek the most secure forms of investment. That should mean a rise in the price of bonds, and particularly of American bonds. It is altogether likely that after the war is over Europe will offer high rates for funds and will put out many high interest-bearing securities which will compare very favorably with American issues. We doubt, however, that foreign offerings will compete seriously with established American bonds until the latter have reached considerably higher prices than those now prevailing.

N. W. Halsey & Co.: The bonds and stocks which Europe has been shipping back to us have resulted in some weakening of prices, but they are being easily absorbed without seriously affecting our situation. In fact, Europe's necessities spell opportunity for our investors, and many shrewd buyers are taking advantage of the present bargain prices to acquire high-grade American bonds at most attractive figures.

That the buying at current levels is not more general is to a large extent due to the fear on the part of many that as the strain of financing the enormous cost of the European conflict becomes more acute, the liquidation of foreign holdings will so increase that prices will of necessity materially decline from current levels.

It seems extremely unlikely that European investors will part with a very large proportion of their sound American securities, and when we consider the rapid increase of wealth in this country, the balance of trade in our favor for the current year, approximately $1,000,000,000, and the unusual accumulation of savings of our people, due to the more general practice of economy, there appears little reason to doubt that we shall be able to absorb, without serious difficulty, whatever amount of our securities held abroad which may be sent back to us.

* * *

Will Railroad Stocks Have Their Turn Soon?

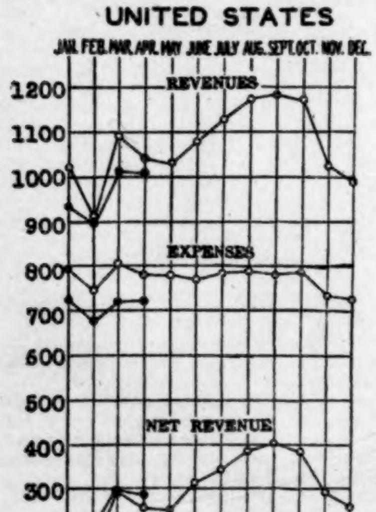
SO far the bull market has been largely in the industrial issues. Many shrewd observers, however, are beginning to feel that the railroads should participate in the advance to a greater extent than they have done heretofore. Richardson, Hill & Co. draw an interesting comparison with Civil War times:

It would be strange indeed if a study of the course of the railroad industry from '61 to '65 should not afford some illuminating glimpses of the possibilities inherent in the present situation. The "war stocks" par excellence of the Civil War period were the railroad shares. When the public finally threw off its timidity and apathy a great boom started in this group of securities which carried the good, bad and indifferent along with it. The fulcrum which supported the buying power was the tremendous export demand for our cereals and the resultant transportation profits.

An authority states that "the stock of every important road was above par by the end of the war, of many nearer 150 than 100." Erie rose over 100 points in three years, Reading 120 points, Rock Island 100, and these are merely illustrations of the intensity of the advance.

Moreover, the records show that the roads attained a high degree of prosperity without materially advancing freight rates. Rates on grain, in fact, actually declined, and competition was keen. The authority quoted above states that "the average rate on all articles in 1864 was less on most lines than in 1856 and 1857." Many roads with no previous promise of possible distributions of profits commenced the payment of substantial dividends, which of course added fuel to the speculative flame, and railroad securities commanded the support and confidence of the conservative as well as the reckless.

For several years, owing to a combination of circumstances too well known to need rehearsal at this time, railroad stocks have been viewed with apathy, and slight attention has been given to the probability of their recuperation from the neglect into which they have fallen. We believe, however, that the present war is creating a situation resembling that which we have just sketched. The combination of a large volume of traffic, which may develop in spite of current pessimism, based on great shipments of grain to primary markets in August and September, supplemented by increased traffic in general merchandise surely may have eventually a marked though belated effect on railroad income. To accomplish a change in operating costs and net earnings which would be conspicuous, all that is needed is a return to a volume of traffic commensurate with the size of the country.



MONTHLY REVENUES AND EXPENSES PER MILE OF LINE—ALL RAILROADS IN U. S.

* * *

Copper Metal and Copper Stocks.

DOES a price of 20½ cents a pound for electrolytic copper discount the war demand? That question is puzzling a great many investors in the copper stocks. Two views on the subject are well expressed in the following quotations:

Thompson, Shonnard & Co.: It is our firm opinion that copper shares have not yet fully discounted the increase in the price of the metal. Electrolytic is now quoted at 20½ cents per pound. An average of 20 cents per pound should be obtained for a considerable time to come. This means that Anaconda is earning

about $6 per share, that Chino is earning over $10 per share, that Nevada Consolidated is earning about $3.50 per share, that North Butte is earning about $6.75 per share, that Ray Consolidated is earning over $6 per share, and that Utah Copper is earning about $13 per share. Current prices of these stocks seem ridiculously low, considering the large earnings of these companies.

Warren W. Erwin & Co.: We are not optimistic for the next three or four months on most copper stocks. The coppers have, during the last two months, while immense war orders were being booked, benefited much by these orders. However, now that these orders have been placed and the copper metal to fill them has been contracted for, we think there will be a falling off in the demand for copper metal for the next few months, while there will be a great increase in the supply of the metal. With 20-cent copper nearly every old copper mine in this country is now producing. The demand for copper for ordinary purposes will almost certainly be far below normal for months to come.

Another important factor that must be reckoned with is the fact that copper and aluminum are now selling at practically the same price, and that aluminum is being substituted for copper. This substitution, which was proceeding somewhat rapidly with copper at 15 and aluminum at 30 to 35 cents a pound, is proceeding more rapidly now that both are selling near the same price. There will be no more copper kettles, pots or pans. Soon aluminum may be almost the sole conductor for electric currents. It was used, last year, in a 240-mile double-circuit line in California. Its specific gravity is only 2.57, while that of copper is 8.9. As its resistance is 2.9 while that of copper is 1.6, its conductivity, by weight, is 1.94 times that of copper. It can, therefore, be carried on much lighter poles than can copper wire.

Of course, if we thought that the price of copper metal would remain above 20 cents or even above 17 cents per pound, we would expect much higher than the present prices for such stocks as those of Utah, Chino, Ray, Nevada, and Miami. It is estimated that with 20½-cent copper all of these companies can earn 20 per cent. or more on the present prices of their shares.

* * *

Stock Exchange Incorporation Again.

AN amendment to the constitution has been proposed which would require the incorporation of the New York Stock Exchange. The Board of Governors are, of course, opposing it. John G. Milburn thus states the grounds of their opposition:

Incorporation would destroy the disciplinary powers of the board of governors of the Exchange, which can very quickly under the present system bring to task any of the members who violate its rules or by-laws. If it were incorporated it would mean that a dishonest broker, who now can be expelled at once, would, while appealing to the courts, be enabled to maintain his seat on the Exchange. Moreover, the incorporation of the Exchange would plunge it into politics, and wipe out its very foundations.

"I FEEL BETTER ALREADY!"
Business finds the U. S. Steel decision a wonderful medicine.
—*N. Y. Tribune.*

The New York Merchants' Association also records itself as opposed to the plan of incorporation. Its president, William Fellowes Morgan, writes as follows:

The general effect of attempts to regulate by law stock transactions will be seriously to hamper and greatly to diminish legitimate stock trading in the States where such regulation by law is operative, and to transfer most of the business to other sections of the country, where more flexible rules and regulations, voluntarily prescribed by Exchanges and conforming to the general practice throughout the world, are in effect.

To subject business transactions so complicated, sensitive and speedy as those involved in the buying and selling of stocks to rigid regulation by statute will make impossible the flexibility and quick adjustment to varying conditions without which this important business cannot be carried on.

Such an outcome could not fail to be disastrous to the growing importance of New York City as a world center of finance, a result which would be most deplorable. Existing laws applicable to all forms of business transactions provide for stock transactions the same kind and degree of legal protection that is provided for other business dealings.

Money and Exchange

America's Store of Gold—Possibilities of Inflation

AMONG the many interesting problems resulting from the world's greatest war, one of the most fascinating because containing such vast possibilities, is that arising from the tremendous accumulation of gold now held by the United States.

The world's annual production of gold is rapidly approaching the $500,000,000 mark. Under normal conditions this new gold every year is spread throughout the commercial world according to the needs and demands of the different countries. The rate of exchange regulates the distribution of gold, and the yellow metal goes where the highest price will be paid for it in other commodities.

At present all the ordinary influences of trade have been superseded by special war measures. European governments have obtained direct or indirect control of most of the gold within their respective boundaries, and are administering the fund to meet the special necessities of the abnormal situation. All the gold they can get is needed to bolster up their tremendous issues of paper money, and they are doing their best to retain it.

Nevertheless, in spite of their urgent need for gold at home, they are, and so long as the war lasts, will continue to be, under the necessity of sending us gold to pay for munitions and war supplies which they need even more than they need the gold. The foreign exchange rate has become a secondary consideration. It is below the gold import point, and is likely to stay there. It may be temporarily braced up by the placing of a British loan here, or by the return to us of some of our own securities held abroad, but so long as the big purchases of war supplies continue, any such stiffening of the rate cannot last long.

Under such conditions it will be very difficult for Europe to prevent the United States from getting a large share of the new gold as it comes from the mines. We are ourselves producing about $90,000,000 of gold each year. That will remain with us, and we are likely to get also much of the gold produced by other countries.

Since we already have by far the greatest store of gold ever held by any country, and since our new banking laws have released from reserves an immense amount of gold formerly required to support bank credits, this constant addition from home production and from abroad, to our already superabundant supplies will probably result in producing the greatest redundancy of gold ever witnessed.

Under normal conditions we could safely predict that such a plethora of gold would bring a gradual inflation, resulting in higher prices and a feverish activity of business. But just as all ordinary rules have been set aside in Europe to meet an extraordinary situation, so that ordinary laws of economics may be found inoperative, or at least to operate under such restrictions and modifications that results are quite different from those usually observed.

So far there has been little tendency toward inflation, as evidenced by business activity. Prices of commodities are, indeed, high, but they are made so by the big foreign demand. Business is growing slowly, and there is great activity in the lines directly stimulated by the war demand, but there is so far no sign of that feverish inflation that might be expected to follow an oversupply of gold.

One powerful motive that will operate to prevent undue inflation of credit is the ever-present possibility that the war might end as suddenly as it began.

The American business man, considering the enlargement of his business on credit, or the bankers considering giving him that credit, are likely to first ask themselves: "What would happen if peace should come next month?"

BOND DEPARTMENT

Bond Bargains

Looking Among the Railroad Issues for Cheap Bonds With Prospects

By FREDERICK LOWNHAUPT, Author of "Investment Bonds," etc.

THE Industrials of the country are booming. At least a great many of them are, and those that are not getting big war orders directly are getting them indirectly, or are doing the work that others are neglecting because of war business.

Everybody has been buying industrial stocks. The result is an average level of industrial stock prices, according to one method of figuring, higher than that of the railroads. The railroads have been noticeably laggards. Their earnings have been poor for a long time, and many of them have not even earned their fixed charges. The prices of their securities, even the best of them, are on what might be considered a bargain level. If not at bargain prices they are at least very cheap.

Nearly everyone has neglected the railroad stocks. Until recently there has been little basis on which to make much noise about railroad securities. Even now it is only the first breath of a favoring wind that is being felt.

In the list of railroad securities, both stocks and bonds are to be found some choice selections that are destined to show handsome profits later on.

The bond experts have been looking through the railroad lists with a keen eye. They realize we have before us three conditions on which to base one's position with regard to the purchase of railroad bonds. One, the change in the trend of railroad earnings and all that means for their fundamental position. Two, this change and what that means for their market position, that is the way the market will interpret this change for the better. Three, the general uplift of all securities carrying along both stocks and bonds.

We will not argue the case on the basis of the market trend. We will not go into the question of whether the changing money conditions will have any effect on the price of bonds; some people argue for lower prices, but I believe prices will be higher in the coming months, but we will look at these securities from the standpoint of their fundamental position.

It is therefore upon this basis that I would recommend the investor to make a careful scrutiny of the railroad bond list right now. If he is not particularly enthusiastic over taking a junior bond, where the margin of safety is not altogether very strong, let him consider some of the senior issues.

I give three tables showing the various elements entering into the situation: *One,* a list of bonds that among which some excellent selections may be made; *Two,* a comparison of net earnings for ten months ended April 30 last, which is the latest complete compilation available, and *Three,* the percentage of net earnings needed last year, that is, the year ended June 30, 1914, to meet the fixed charges of the various roads.

In the first table given it must be remembered are two or three really poor bonds, but the majority of them are of a high order, with an ample margin of safety in good times and bad. Because there have been bad times for the railroads for some months past they are down low. A comparison is given with the high point of the bond market in 1912, which was not an extraordinary year so far as prices go, but was a year when effects just like those coming on now showed their full measure. It was the climax of a security movement as the result of a spell of very good railroad earnings.

The situation which seems to be de-

Bonds That Are Getting a Larger Margin of Safety Because of Increased Earnings.

	Approx. Present Price	*Price at high point of Bond Market in 1912*
Atchison 4's, 1995	83	92
B. & O. 3½'s, 1925	91	93
C. & O. 5's, 1929	82	104
C. & A. 3's, 1949	55	72
C. & N. W. 3½'s, 1987	80	87
C. C. C. & St. L 4's, 1993	68	93
Col. & Sou. 4½'s, 1935	82	98
F. E. Coast 4½'s, 1959	88	98
M. Cent. 4's, 1929	80	91
M. K. & T. 5's, 1944	81	103
Miss. Pac. 6's, 1920	99	107
N. Y. C. & St. L. 4's, 1937	91	101
N. Y. O. & W. 4's, 1992	78	96
P. C. C. & St. L. 4's, 1945	93	98
St. L. S. F. 5's, 1931	99	108
Wabash 5's, 1939	100	107
West. Md. 4's, 1952	68	88

veloping in this country makes it altogether reasonable to make comparisons with that time. It will be seen from the prices given that there are some real bargains even among the best of bonds. It is reasonable to suppose under the conditions existing in this country, and likely to continue for some months, that railroad earnings will again rise to a high point, which will be the premonition of high prices for railroad bonds.

The roads in receivership have not been left out because it is well known that as a road comes near the emerging point, especially if it has paid interest on its underlying bonds all through receivership like Wabash, there are some worth while selections to be had for the alert and shrewd buyer.

If we are at the turn of the tide in railroad earnings it means that the poor roads are going to benefit also. In fact if we examine the figures closely, we find that some very promising figures are indicated if the trend already manifested is continued.

The best way to study this is to take the net earnings over the past year, so far as obtainable. The months of May and June would make the exhibit far better, but the compilation of ten months given is sufficient to indicate where to look for the good investments.

It is the effect this turn of the tide will have on the bonds that is here emphasized. It means that the *margin of safety* is going to be considerably augmented. The investor or buyer of bonds who senses this first is sure to make some fine profits.

In the Table II following, the increase in some cases is slight, while in others it is really big. The chief significance of the exhibit is that these roads have apparently turned the corner first. Most of them have not skimped on their property to make this showing, but are indicating these better figures purely out of a better position. They are widely enough scattered to show that the betterment is not only in one spot, but is all over. Some of them are the big roads of the country. As a matter of fact a recent compilation shows a considerable increase per mile of earnings for the entire railroad system of the country.

The sad exhibit of this story is that, showing the amount of net earnings consumed last year for fixed charges, most of which is bond interest. But it is exactly the point where the average bond buyer falls down in his investing. He looks, for instance, at Chesapeake & Ohio, and sees 75 per cent. of net used for fixed charges, and immediately scorns to consider C. & O. bonds.

He should with this, however, re-

Comparison of Net Earnings for Ten Months Ended April 30.
000 Omitted.

	1915	1914
Atchison	$34,805	$31,565
Balt & Ohio	21,574	21,384
Boston & Maine	8,594	7,617
Ches. & Ohio	9,627	9,293
Chic. & Alton	2,490	1,753
Chis. R. I. & P.	14,283	13,822
Clev. C. C. & St. L.	7,488	3,206
Col. & Sou.	1,880	1,693
Fla. E. Coast	1,639	1,413
Grt. Nor.	26,637	25,654
Mich. Cent.	6,978	5,882
M. K. & T.	8,869	7,379
Miss. Pac.	5,569	3,979
N. Y. C. & St. L.	1,865	1,766
N. Y. N. H. & H.	16,287	16,050
N. Y. O. & W.	1,979	1,819
Pitts. C. C. & St. L.	7,713	7,306
St. L. & San Fr.	11,229	10,130
Wabash	5,397	5,094
West. Md.	1,841	540

member that in the Table I mentioned we have a bond that has a good margin of safety even in bad times, and further, that the last two months (May and June) are showing tremendous increases in earnings on the C. & O., and still further, that the company is to put back into the property in five years to end 1920, $17,000,000 from earnings.

Such considerations hold also in cases like the C. C. C. & St. L. Horrible as it may seem to think that last year the road did not earn its fixed charges by a small margin, it should not be forgotten that in the Table II it shows that *net* earnings have more than DOUBLED in the past year, and that the company is to earn approximately $1,000,000 a year additional in its net as a result of the increased freight rates it is enjoying for the past few months, and further, that it may get some further increase in earnings from this source.

The seemingly sad story is given in the following Table III. It should be carefully considered, not *per se,* but in the light of attendant circumstances, which are working out some beneficent results in the railroads.

The time to buy these times is when they are cheap and the roads look poor; not when the roads have had a great boom in earnings and the bonds are on a level from 6 to 10 points higher.

Percentage of Total Net Income Required to Meet Fixed Charges, Largely Interest on Bonds

	1914
Atchison	41
Balt. & Ohio	66
Ches. & Ohio	75
Chic. & Alton	*
Chic. & N'west	46
Clev. C. C. & St. L.	*
Col. & Sou.	89
Fla. E. Coast	50
Mich. Cent.	*
M. K. & T.	93
Miss. Pac.	99½
N. Y. C. & St. L.	92
N. Y. O. & W.	71
Pitts. C. C. & St. L.	82
St. L. & S. Fran.	*
Wabash	*
West. Md.	*

*Total charges not earned.

There is especial point of this advice just at the moment in view of the heavy foreign liquidation in all classes of our bonds. European holders of American stocks and bonds have been dumping on this market over the past three weeks great quantities of securities of companies whose showing has not been good over the past two years.

Practical Talks to Investors

XX—Do Your Worrying Before Investing—Not After

THIS is not to imply that you can put your money into securities and then practically forget them except to cut your coupon or cash your dividend check. Not much. One of the fundamental facts about the art or science of investment—whichever you choose to call it—that I have dinned into the ears of investors through these practical talks is to keep their eyes on their stocks and bonds everlastingly.

But keeping your eye on them and worrying about them are two very different matters. It's like the unloading of great bags of gold into the subtreasury on Wall Street—a small detective squad watches everybody near the express wagon but nobody is suspected of wanting to steal any.

Watching your investments after you have committed yourself is only ordinary prudence—and the wise investor does it. Worrying about your investments is an indication that you either do not know whether the things you bought are good or bad, or else your confidence in them is small.

One good reason why you should do your worrying before and not after investing is just this—you think about them only a short time before you put in your money. After your money is placed you are apt to hold them a long time which means a long stretch of worry.

Why should this be? If you get it clearly into your head that of all the different kinds of securities, such as railroad, industrial, utility, etc., there are very good ones and very poor ones and all shades and degrees of quality between, you will be started right at least.

If you do your worrying before you invest, you will do your thinking before, and if you do your thinking before, you will not get into the things that register less than half good.

All this sounds like the homeliest kind of platitudes. It is a fact, however, that a large majority of people do their thinking after they invest, not before. And when they do their thinking afterward it is generally clouded by a lot of anxiety as to whether they are "in wrong."

Having told you to do your worrying before, what is there for you to worry about? Here are a few things. Get them answered correctly and your after worry will be greatly reduced.

First worry about the question whether you are expecting to get something like a Government bond and yet get "high living" income. Secondly, whether you are handing your money in childlike faith to a well printed prospectus or to a real banker. Or, again, whether you have your eye on "profits" with their accompanying risk or on a satisfactory income.

These will suggest other similar aspects of the case. A little study of your own case may bring to mind a few other *trifling* inconsistencies. Once more for emphasis—worry before, not after.

Hints for Investors

Distribution of your investments means more than distribution over the classes. That is to say you should distribute over the various grades of any class as well as among the different classes of securities. In this way you can get an income averaged over the different bonds in one class, and then over the whole lot.

Bonds of the semi-investment or business man's variety that have in them an element of speculation fall faster and farther in a decline than the higher grade varieties. This should be remembered in considering their value as collateral.

Don't pay much attention to the rate per mile at which railroad bonds are said to be issued. There are so many factors that affect this question of the rate at which the bonds are issued that the bare statement alone means little.

Bond Market Topics

What Does the New York City Bond Sale Portend?

ON THE face of it the recent sale of $71,000,000 New York City looked like an ordinary bond sale coming along in the course of events as do so many New York City sales. There are some peculiar aspects to this particular piece of financing which are not fully appreciated. In the first place it was a big operation. But that was not significant because the condition of the money market made it perfectly easy to put through such a sale. Three times that amount no doubt could have been sold just as easily.

One peculiar phase of it was the low price in the face of the easy money market. In theory there should have been excited bidding at high prices for the issue. There is so much idle money about that it would appear that such a good security as a New York City bond would find many anxious bidders. Especially would it be expected that institutions would go in for the bonds strongly as much money is almost unloanable.

On the contrary the bidding was low and while the issue was heavily overbid everybody was making as low prices as possible. In partial explanation of this is the great quantity put out and the enormous debt of New York City and again the sale was conducted in the face of a very poor bond market notwithstanding that great quantities of European held bonds were being taken at the same moment.

Such a quantity of bonds being taken in the face of a poor bond market and not being offered heavily to the public immediately can mean only one thing—that there is to be a better bond market later on. Obviously such a block of bonds is not going to be held indefinitely by the dealers. For the time being it is profitable to hold them. The money put into them yields much more than 4 per cent. more than it can earn in the banks. A little later on there is going to be a good bond market for these bonds. In the meantime the dealers will sell them off as they can but will make no big effort. Usually for the first two weeks after such a sale of city bonds there is big trading in the market. Nothing like that was witnessed this time.

How Foreign Bond Selling Was Received.

IT WAS hardly to the credit of our markets to absorb the bonds that drifted here from abroad during the past month in great quantity because we have so much idle money in this country. We could treble the amount recently bought back and yet hardly feel the pressure.

The good thing about it all was the readiness with which they were taken at so little concession in price. Of course the prevailing level of prices was really cheap so it would have seemed a shame to demand lower prices before taking over many of the high grade issues that have come across.

For a few days in June a veritable flood came across. It buffeted some of the high grade issues like New York Telephone 4½s which a few weeks previous were selling around 97 and on that wave of liquidation in the general market went down to 94. But the great majority of issues suffered little in price as a result of the flood.

The selling is apparently not yet over. It seems to be coming over steadily, but whatever the amount we are likely to take it all. It is a favorable augury for the bond market in general that such large quantities of securities should be taken at a time when the general bond market in this country is so quiet. Investors have not appreciated to the full that bonds of all classes are extremely cheap and that once the market gets on its long run forward it will be some time before they will find bonds at this level again.

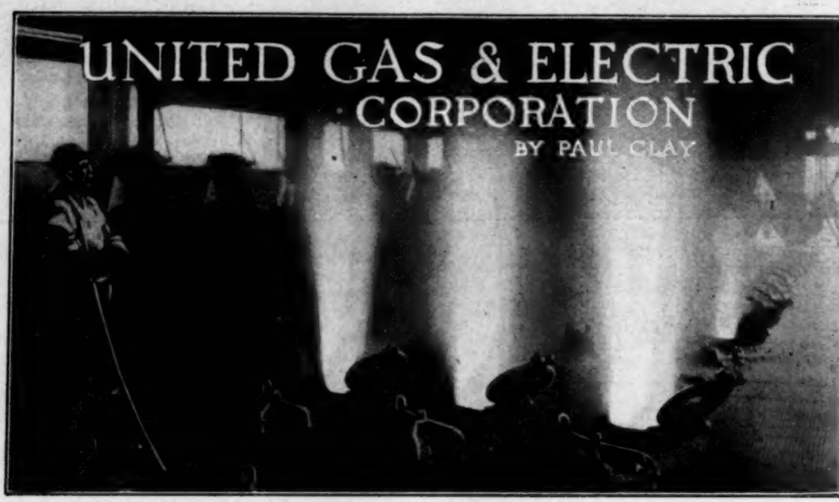
It is a nice question whether the great majority of these bonds will go back again some day. It is more than likely that a large part will return once the people get back on their feet. Were it not for the fact that our country is so favorably situated in all respects, doubtless a large flood of securities would have come long ago. But European investors are loath to part with securities of the character that ours are in this time. There is evidently considerable pressure abroad to bring the number that came for sale last month. Whatever comes, no doubt our market will take them easily.

Judgment in Buying Bonds

THE word "Bond," implying as it does the ideas of guaranty and surety, has always connoted stability of value when used in connection with the security market. Stocks are popularly regarded as the medium of speculation, bonds as non-speculative investments. Yet the record shows that the market value of bonds, as well as of stocks, varies widely in response to the mutations of trade, finance and politics, and that the opportunities for the exercise of intelligent judgment in the Bond Market are hardly less numerous than in the Stock Market.

—F. J. Lisman.

PUBLIC UTILITIES DEPT.



Gas Retorts at Hartford City Gas & Light Co.

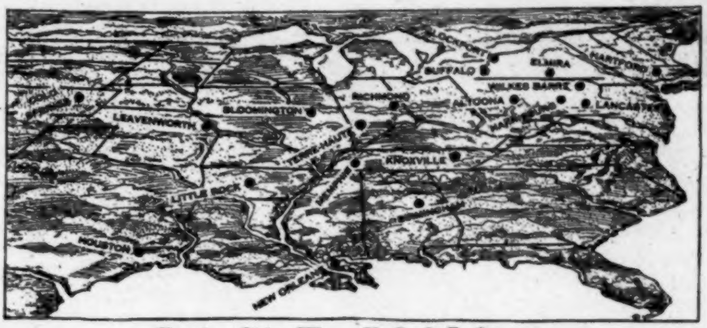
THE study of the origin and history of any great railroad in the United States would have to begin a half century ago, with a lot of little disjointed roads having all sorts of gauges and equipment, and leading a precarious existence. Gradually these small roads have been connected up, reduced to standard gauge, supplied with standard equipment, rebuilt with heavier rails, ballasted with better materials, and equipped with capacious freight and passenger terminals, until now we have great systems like the Pennsylvania Railroad, the Southern Pacific and the Great Northern. But few of the younger generation could even tell the names of scores of the subsidiaries which went into these consolidations decades ago.

The public utility field is in about the same stage of development now as the railroad field was then; and we may logically expect that in the course of time the scores of small concerns now held together by holding companies will be completely merged so that the original parts will disappear within the greater whole. The multiplicity of small bond issues which now confront the investor in public utility securities may ultimately be refunded and displaced by blanket mortgages. But meanwhile we must be patient during the process of development, not only with this multiplicity of securities, but also with the generally objectionable holding company, the confusion of intercorporate relations, the lack of consolidated balance sheets, and the general difficulty of finding out just what assets or other values lie behind an individual stock or bond.

Thus the architecture of the United Gas & Electric Corporation is not yet all that the investor might desire, but the whole system of companies is rapidly progressing in the right direction. The management has furnished an intelligible consolidated income account showing the aggregate income exclusive of duplications for a three-year period.

In like manner, Consolidated Income Accounts for the years 1913 and 1914 have been made up and are on file in the office of the company. These have not yet been published, but the management displays an entire willingness to show them to anyone who has a reasonable claim to see them.

In architectural form the United Gas & Electric Corporation, meaning thereby the parent concern, is a holding company built upon a foundation of subsid-



Showing Cities Where U. G. & E. Operates

iaries—which latter, in turn, also have subsidiaries. In other words, the parent concern is the top story of the structure; and before the investor can understand the values and nature of its securities, he must have a knowledge of the understories, the foundation and the subfoundations. In order to see the foundation under these parent securities, we here describe the architecture of the entire system.

In the offices of the company on Broadway this architecture is admirably pictured by a chart having the parent concern at the top, with the subsidiaries placed underneath something in the shape of a genealogical tree, so that the eye immediately grasps the construction of the whole system. As space will not permit the reproduction of this chart here, the Table I is used to convey its meaning. The numbers at the left represent no order of seniority; but the numbers at the right show how each company is held by the parent concern. For example, at the right of the Colum-

TABLE I

Number	Company	Control	Bonds and Notes
1.	United Gas and Electric Corporation	....	$7,850,000
2.	United Gas & Electric Co.	2-1	490,000
3.	Lancaster County Ry. & Light Co.	3-1	1,000,000
4.	American Cities Co.	4-1	10,000,000
5.	United Gas & Elec. Engineering Corp.	5-1	....
6.	Altoona Gas Light & Fuel Co.	6-2-1	825,000
7.	Citizens Gas & Fuel Co.	7-2-1	799,500
8.	Colorado Springs Light, Heat & Power	8-2-1	2,604,000
9.	Elmira Water, Light & Railroad Co.	9-2-1	4,996,000
10.	Hartford City Gas Light Co.	10-2-1	750,000
11.	Leavenworth Light, Heat & Power Co.	11-2-1	675,000
12.	Lockport Light, Heat & Power Co.	12-2-1	750,000
13.	Richmond Light, Heat & Power Co.	13-2-1	850,000
14.	Wilkes-Barre Co.	14-2-1	4,687,300
15.	Conestoga Traction Co.	15-3-1	1,887,500
16.	Edison Electric Co.	16-3-1	1,557,800
17.	Lancaster Gas Light and Fuel Co.	17-3-1	500,000
18.	Conestoga Realty Co.	18-3-1	254,000
19.	Columbia Gas Co.	19-17-3-1	75,000
20.	Memphis Street Railway Co.	20-4-1	10,477,000
21.	Little Rock Ry. & Electric Co.	21-4-1	3,466,000
22.	Knoxville Railway & Light Co.	22-4-1	3,709,000
23.	Birmingham Ry. Light & Power Co.	23-4-1	14,837,000
24.	Houston Light & Power Co.	24-4-1	1,500,000
25.	New Orleans Railway & Light Co.	25-4-1	36,270,500
26.	Consumers Electric Light & Power	26-1	1,526,000
27.	Harrisburg Light & Power Co.	27-1	2,985,000
28.	Houston Heights Water & Lt. Assn.	28-1	25,000
29.	Houston Gas & Fuel Co.	29-1	1,311,000
30.	International Traction Co.	30-1	18,950,000
31.	Union Gas & Electric Co.	31-1	587,000
32.	International Railway Co.	32-30-1	22,568,500

bia Gas Company, which is numbered 19, the numbers 19-17-3-1 mean that this company is controlled by (17) the Lancaster Gas & Fuel Company, which in turn is controlled by (3) the Lancaster County Railway & Light Co., which in its turn is controlled by the parent concern, Number 1.

Few people realize the immense size of the United Gas & Electric system of companies, and the tremendous number of people which it serves. The whole system taken as a unit is among a very few of the largest concerns in America. Its yearly gross income is now not far below $30,000,000, and its total capitalization is approximately $230,000,000. Of the two statements the income account is, of course, more important than the balance sheet, even though a study of income accounts can never be entirely conclusive without a simultaneous study of balance sheets For instance, the amount of net income signifies nothing unless one knows the amount of capitalization upon which it must pay interest and dividends. Excluding the American Cities Co. and its subsidiaries—which in Table I are numbers 20 to 25, both inclusive—the principal items in the income account of this system are shown below.

All of these figures are as of December 31, 1914, and since then one small company has been sold. Yet it is still included in this account so as to render these figures comparable with the income account of the same date. The total of the bonds and notes here mentioned is $158,763,100.

The inclusion of the American Cities Co. and its subsidiaries would just about double these figures. In 1913, for example, the gross earnings of the American Cities system were $14,680,302, earnings, $5,562,316, and surplus for dividends and renewals $2,683,942.40. In both of these instances the surplus for dividends is figured without making deductions for extraordinary maintenance or renewals, or for replacement reserves; but this is entirely proper since with nearly all corporations the so-called surplus for dividends is not entirely available for dividends. A part of it must nearly always be appropriated for improvements or reserves—so that these surplus earnings are really stated in a way that renders them comparable with the surplus earnings of other companies.

Considering general business conditions the showing must be regarded with satisfaction. Admittedly gross earnings made a large increase, net only a very small increase, and surplus earnings showed a decrease. It would have been gratifying had the net showed a larger percentage of increase than the gross, and the surplus a larger percentage of gain than the net, because this would have meant keeping down both operating expenses and fixed charges, and saving more and more for the shareholder. But there were two factors which rendered any such happy result impossible in this case. First it is a new system of companies having to meet a vast number of moderate improvement expenses in its various plants; and second, general business conditions during three-quarters of 1913 and the whole of 1914 were very adverse. Operating expenses were increased partly because there were so many extra expenses on account of the newness of the system, and fixed charges were increased because the cost of obtaining capital permanent or temporary has been continuously high.

The present outlook for earnings is all that could be expected under exisiting business conditions. The light and power plants are showing gains in both gross and net; but the street railway branch of the business, at least with many of the subsidiary companies, is

INCOME ACCOUNT ESSENTIALS

	1914	1913	1912
Gross earnings	$14,013,353	$13,628,342	$12,851,445
Operating expenses	6,083,161	5,972,888	5,648,286
Net operating income	7,930,192	7,655,454	7,203,159
Maintenance and taxes	2,062,223	1,972,962	1,755,727
Total net income	5,867,969	5,682,492	5,447,432
Fixed charges	3,459,238	3,308,260	2,969,574
Surplus for dividends and renewals	2,408,731	2,374,232	2,477,858

showing losses—especially in the south. These are due partly to the jitney competition, but mainly to the business depression. Upon the whole, the jitneys are now hurting this system less than a few months ago, and in New Orleans, for example, they have been practically put out of business by legislation requiring them to buy expensive licenses and deposit costly bonds.

This is one of the few large public utility systems of companies for which complete and comprehensive figures are available. The investor need not be left in any doubt at to either Assets, Liabilities or Income. The 1914 Consolidated balance sheet shows the Assets and Liabilities not only of the parent concern but also of the parent, together with all its subsidiaries—duplications being eliminated. This capitalization on December 31 last, consisted of $141,318,600 bonds, $12,164,000 coupon notes, $45,254,450 preferred stock, and $30,770,960 common stock, making an aggregate of $229,508,010.

As of 1913 capitalization is estimated to have consisted of $62,078,100 United Gas & Electric system bonds, plus about $69,041,000 American Cities system bonds, making total bonds of about $131,119,100. Adding the United Gas & Electric notes, the fixed obligations of the system are estimated as of 1913 at $137,894,100. To this there should be added the United Gas & Electric system stocks mentioned in the foregoing paragraph, plus the net outstanding stocks of the American Cities system, which apparently amounted to about $38,905,500. This would bring the total capitalization of the present United Gas & Electric system as of 1913 up to $210,091,860, estimated.

If I were to estimate the actual assets, physical and other, behind this great system of companies, I should use the method of basing the estimate upon earning power, as described on Page 29 in the issue of May 1. By this method the figure arrived at would be about $140,500,000. This figure is meant to include merely the physical assets, plus the treasury assets, plus the actual costs of patents, franchises and the like. It is not meant to include any elements of intangible value.

Total capitalization considerably exceeds this figure because, of course, the stocks of the system represent principally the intangible values. This does not mean that the stocks may not ultimately be very valuable and rest upon physical assets. They may. The Steel Corporation is eminently sound and successful and yet when it was formed, the common stock had behind it no physical assets whatever and the preferred only a small percentage of assets.

As to working capital, the system is in a great deal stronger position than it was a year ago. Then, its net working capital excluding the American Cities Company and subsidiaries amounted to only $775,560 whereas now including the American Cities Company and subsidiaries it amounts to $3,604,964. Current assets are now $12,859,314 whereas current liabilities are only $9,254,350. For a new and expanding public utility concern of this type, it must be admitted that the United Gas & Electric system is remarkably strong in working capital. At the time it took the American Cities system the latter probably had no working capital at all; and all the subsidiary bonds of the American Cities system should be benefited by the change.

For those who are willing to await developments the stocks of the United Gas & Electric system look like a good long-pull speculation. When the time comes that bonds can be sold by the subsidiaries, and that street railway earnings, especially in the south, fully recover both of the preferred stocks will doubtless pay the dividends to which they are entitled; but this time seems likely to be a year or perhaps two years ahead. When it does come, however, all three of the stocks ought to at least double in market value, and a profit of 100 per cent. or more in a couple of years is not to be spurned.

Part One of a Valuable Series

What the Investor Should Know about A Public Utility Company

Income—Income Accounts

By HENRY JUDSON

EDUCATION is expensive, but we, the investors of the United States, are buying it regardless of price. Experience has shown that it costs more to educate an investor than it does to train a man for such professions as law, medicine or civil engineering. Still we go on buying it, consciously or unconsciously. The New Haven stockholders in recent years unintentionally paid a little tuition fee of about $125,000,000; and the St. Louis and San Francisco shareholders paid another handsome tuition fee, and so did the security holders of the American Water Works and Guarantee, the Wabash, the Western Pacific, and scores of other companies. The advantage lies with the investor who can profit by the experience of others; for in this manner education comes a good deal cheaper than by one's own experience. Hence, perhaps articles of this kind, based upon a great deal of investment experience, may not come amiss.

In the present article the writer will discuss income and income accounts, showing the principal points in regard to both which a stockholder should know in order to really understand what risk he is taking, and what chances of profit he is obtaining. In the next article balance sheets and assets and liabilities will be discussed; and therein the writer will strive to show how to check up an income account by the balance sheet, and how to determine whether or not the given company is in a strong financial position. The third article will discuss the nature of securities, and attempt to disclose the relative values of several popular types of stocks and bonds, and to point out the great differences between stocks representing assets and those representing earning power only, and also between stocks issued by operating properties, and those issued by holding companies.

An ideal income account of a public utility concern would be made up about as follows:

1. Gross earnings:
   a. Amount derived from light and power business.
   b. Amount derived from street railway business.
2. Operating expenses:
   a. Expense of conducting actual operations.
   b. Expense for ordinary maintenance and repairs.
   c. Expense for extraordinary maintenance or renewals.
3. Net income from operations.
4. Income from investments.
5. Total net income—sum of the two.
6. Total charges:
   a. Interest on bonds, notes and loans.
   b. Taxes.
   c. Depreciation allowances.
7. Surplus for dividends:
   a. Percentage on preferred.
   b. Percentage on common.

When income accounts are given in this form, they leave the investor in no doubt as to what the income is, and to what purposes it is devoted. It is important from the investor's viewpoint to discriminate between gross earnings from light and power, and earnings from street railway business, since the light and power business is much the more profitable. Operating expenses are lower, and on this account a light and power company of the typical sort may conservatively be capitalized without any water at a sum equivalent to

about 5.3 times its yearly gross earnings, whereas a street railway cannot likewise be capitalized with the same conservatism for more than about 4.6 times its gross earnings.

Under operating expenses a clear statement of outlays for maintenance and renewals is needed, because as a matter of fact there are so many companies who do not spend enough for maintenance to prevent deterioration in the physical condition and the intrinsic value of the plants, and this is inevitably followed by its corresponding deterioration in the average market value of the stock. For the same reason under the head of total charges the amount of money set aside for depreciation, or paid into reserve funds, also needs to be known. There are a great many companies who do not make these items known, but in such cases it is more or less of a gamble to buy the stocks. These items are absolutely essential to a real knowledge of stock values. In their absence one has to judge from the personnel of the management as to whether it is or is not probable that this management would conduct its affairs conservatively, and give the stockholder a square deal. On this point the public has judged wrongly in a great many instances during the past few years.

The arithmetic of a properly arranged income account, is perfectly simple. Gross earnings, minus operating expenses, equal net operating income. This income, plus "other income" or income from investments, equals total income, otherwise known as total net earnings, and sometimes called "gross income." One has to look out for the variations in terminology used in different reports. Some companies consider "income" to mean net only, whereas its proper meaning is anything that comes in. The phrase "gross income" often used to mean total net income is a misnomer. The surplus for dividends is obtained by deducting total charges from total net income, and of course the percentage earned on the preferred is obtained by adding two decimal places and dividing the entire surplus for dividends by the outstanding preferred stock. The percentage on the common is obtained by deducting from the surplus for dividends the amount of money required to pay the preferred dividends, and then adding two decimal places and dividing by the outstanding common stock.

Factors which affect income should be studied as closely as the income and expense account itself. Perhaps the most important of these are the location of a property, the industrial character of the territory and the condition and progress of the industries of this territory. One cannot really foresee changes in income of any company without understanding these factors. For instance, at the present moment the most important single factor in determining the income of street railway properties in the south is the price of cotton; and the most important factor in determining this price is the acreage. Now, there is little apparent connection between the acreage of cotton and the price of the stock of the Northern Texas Electric Company. But, nevertheless, under existing conditions the man who knows nothing about cotton cannot know very much abou the outlook for this stock.

The essential facts are that the cost of producing cotton is about 8¼ cents a pound; that the restoration of normal cotton prices depends upon reduction of about 30 per cent. in this year's American crop; that the maintenance of even the present prices depends upon a reduction of 12 to 15 per cent.; that cotton is the dominating industry of many southern states, with the result that the cities of these states can have no greater prosperity than do the cotton planters; and finally that the street railways of these cities can obtain no greater prosperity than do the populations they serve. This well illustrates the broad necessity of a close observation of the industrial conditions surrounding a company in which one is investing.

Even if there are no special or extraordinary conditions such as just referred to, it is very desirable to study the growth of population in the given section, and learn thereby the indicated growth in the total income of the given company. As a general rule the population of municipalities in the United States increase at the rate of about 40

per cent. every ten years, and the gross earnings of a public utility concern usually increase about 1¼ to 1½ times as fast as population. This is owing to the facts that our per capita wealth is steadily expanding, and that our per capita consumption of gas, electricity and transportation is steadily increasing. In a municipality where population is growing at less than the average rate, gross earnings are not likely to increase very rapidly, and the management of the given company should demonstrate its ability to keep operating expenses down—or else the stocks of the company are likely to be unattractive.

Industrial progress of a community may often be learned from the statistics of manufacturing, and these may be obtained free by application to the Census Bureau at Washington. If it is found that the manufacturing output of a given town is decreasing, while that of all the surrounding municipalities is increasing, one may draw his own conclusions as to the outlook for a public utility concern in that town. The business of seaport cities is fairly well disclosed by the statistics of their imports and exports, which may be obtained free from the Department of Commerce and Labor at Washington.

Bank exchanges of all cities of any size are readily available, and by examining these for a series of years one obtains a great deal of information as to growth.

Other points to be studied are the amount of competition and the terms of franchises, as well as the subject of municipal or government regulation. These points are usually covered in bond circulars; and therefore a stockholder in a given company, even though he has absolutely no interest in the bonds, cannot afford to neglect to carefully study any bond circulars which may be issued in regard to the company. Indeed, everything which shows either the income itself or the business influences affecting income is worthy of close attention.

Public Utility Inquiries

Cities Service

Do you advise selling Cities Service preferred? Their reports are encouraging but no dividends are declared.—Old Subscriber.

We would not advise you to sell. While the company passed its dividends last fall it is constantly doing better and from what we learn it is probable that after a somewhat longer pull you will make up your loss in great part if not entirely.

Tennessee Power Bonds

I am the owner of some Tenn. Power Co. 5% bonds. Do you consider the interest on these bonds secure, or would you dispose of them and reinvest in others? They cost me about 75.—M. L.

We regard the interest as safe, and do not see any reason to dispose of the bonds.

Louisville Gas & Electric Bonds

W. S.—Louisville Gas & Electric 1st 6s are a good investment. The company is a consolidation of various utilities in Kentucky, is controlled by the Standard Gas & Electric Co., and is under the control of H. M. Byllesby & Co. The bonds are a direct lien and secured by a mortgage on the entire property. They were marketed by E. H. Rollins & Sons, Boston, and Harris-Forbes, New York, also Harris Trust & Savings Bank, Chicago, at any of which places you should find a market at any time.

Third Avenue

J. K.—President Whitridge said a while ago that the surplus for year ended June 30 should be around $1,000,000. Whether that is realized or not, the fact remains that the company is being steadily built up by a policy of improvement rather than a policy of paying dividends. The president's estimate of the amount to be earned on the stock is between 6 per cent. and 7 per cent., but the prospects of dividends are apparently some distance off. The president is determined to make dividends permanent, when once they are begun.

Public Utility Bonds

Would you be good enough to suggest two or three public Utility bonds, with a fair margin of safety and promise of appreciation? —A. C.

South Carolina Light, Power & Rys. Co. 1st 5s 1937; Public Service Co. of No. Illinois 1st and Ref. 5s 1956; Montana Power 1st 5s 1943; Consumers Power 1st 5s 1929.

Notes on Public Utilities

American Cities.—DIVIDEND reduction on preferred stock from 3% to 1½% explained by the Board of Directors as due to general business conditions combined with the jitney competition. Regulation of jitneys expected to help materially in the future.

Amer. Light & Traction.—NET EARNINGS of company available for dividends gain $233,000 in five months. Properties in the middle west exceeding estimates of earnings made at the opening of the year. Report for year ended June 30 will be available in August.

Amer. Public Utilities.—BENEFITS to be derived from contracts with Consumers Power Company, of Minneapolis and others are believed to augur well for the securities of the company.

American Tel. & Tel.—EARNINGS of the system have shown steady improvement. Company has no financing plans in mind. Surplus after dividends for 1915 expected to be around $11,500,000 as compared with $10,002,452 in 1914.

Detroit Edison.—GROSS EARNINGS for May were $577,727 an increase of $91,800 over May, 1914, with a gain of $42,421 in net and surplus after charges for the month of $119,228 an increase of $23,468.

Electric Bond & Share.—GAINS in earnings from subsidiaries being shown.

Interborough Consol.—INITIAL DIVIDEND of 1½% declared from surplus payable July 6 to stockholders of record July 3. Hereafter it is expected the dividend will be declared quarterly on a 6% basis.

Massachusetts Gas.—USUAL DIVIDEND has been voted on the common stock. Net earnings for May increased 5.61%. Net earnings for the fiscal year to end June 30 will fall short of the record year 1912-1913 when profits were equivalent to 6.07 on the common, as compared with 6% expected to be shown in the year just closed.

Mexican Tel. & Tel.—ANNUAL REPORT presented without figures owing to the chaotic state of affairs in that country. President outlines the difficulties under which the company has been operating. He states, however, that apparently gross earnings have not fallen much below former years.

Middle West Utilities.—ANNUAL REPORT for year ended April 30 last shows net earnings $1,360,000 compared with $1,301,702 in 1914. Balance after interest changes in 1915 was $981,318 compared with $1,074,186 in 1914. Combined earnings of various subsidiaries was $2,757,728 in 1915 compared with $2,308,654 in 1914. Fixed charges in 1915 were $1,618,057 compared with $1,382,849 in 1914.

Montana Power.—ELECTRIFICATION of the long stretch of Chicago, Milwaukee & St. Paul progressing. Power to be furnished by the Montana company will take a large amount of energy.

Montreal Light, Heat & Pr.—EARNINGS for new fiscal year begun May 1 showing favorable results. Although conditions are not of the best in Montreal the surplus for May available for dividends was $267,311 as against $250,393 for May, 1914, an increase of $16,918.

New York Rys.—DECLARATION on Income bonds for six months to June 30 expected to be larger than last year. Four months surplus available for interest on Income bonds $207,740 over $100,000 ahead of 1914. Gross earnings since January have been about the same as last year but better operating conditions have enabled a saving of expenses.

Pacific Gas & Elec.—GROSS for May $156,296 ahead of May, 1914, and for five months there was a gain of $679,308. Recent stock dividend was made so that conservation of cash might be effected. For the five months ended May 31 the gain was $583,410.

Public Service Corp. of N. J.—PROCEEDS of bonds to the amount of $5,000,000 recently issued by the company will go to complete the electric railway terminals and office building in Newark. Congestion in spots in Newark make necessary additional facilities.

Republic Ry. & Lt.—EARNINGS for the five months ended May 30, 1915 do not reflect increased activity in the company's territory. Jitney competition being felt. For five months ended May 31 gross decreased 3.02% and net showed a slight decrease. Interest identified with the property are working to formulate a comprehensive scheme for financing.

Southern California Edison. — GROSS earnings for five months ended May 31 decreased $29,655 although surplus increased $12,781. Reduced operating expenses accounted for this showing. Indications are for a very long delay before the question of whether the city shall take over the electric distributing plant in Los Angeles, and at what price, will be settled.

Virginia Ry.—JITNEY COMPETITION still a factor in reducing competition. For the eleven months ended May 31 was $38,167 less than for the corresponding months in previous year.

Western Power.—FIRST REPORT made to the public since the company was organized in 1906 gives figures for 1914 and 1913 showing gross of $2,681,099 for 1914 and $2,698,214 for 1913 with net of $2,053,571 for 1914 and $1,964,099 for 1913. President states outlook for 1915 is much better.

RAILWAYS & INDUSTRIALS

The Market Outlook

Foreign Selling—American Capital Accumulating—Higher Money Abroad—Influence of Submarines

EUROPEAN selling has been perhaps the most important recent feature of the market. Some of this selling, especially of bonds, has come from Berlin, which finds a way to dispose of securities in this market in spite of all English efforts to the contrary.

Most of the selling, however, has come from London, where the new 4½ per cent. loan has offered great inducements to holders of other securities to transfer their capital. A British loan at 4½ per cent. is naturally very attractive from the point of view of yield, and when motives of patriotism are added the inducement to let American stocks and bonds go and put the money into the new bonds is strong enough to influence a large number of English investors.

The effect of this selling on prices at New York has been less than might have been expected. Bonds, as more directly representative of the price of capital, have suffered relatively more than stocks. An average of 25 railroad bonds declined more than a point during June and some further drop has been recorded in July:

June, 1915........	77.85
May, 1915........	78.93
April, 1915	81.43
November, 1914...	77.32

The figures for November, 1914, were the lowest recorded while the Exchange was open, but during the closing of the market curb and counter prices on these bonds reached an average of about four points lower still. Present bond prices are two or three points lower than the extreme bottom of the 1907 panic.

An average of 50 stocks, on the other hand, is far above the lows of 1914 and at this writing is only four points below the high level reached about May 1, 1915.

* * *

FOREIGNERS are showing a good deal of discrimination in their selling. St. Paul, for example, a stock on which present earnings are unsatisfactory although its more distant future is bright enough, has been the target of many foreign selling orders, and the same is true to a less extent of Southern Pacific; while Union Pacific, making a better showing of earnings as compared to dividends, has shown a notable firmness.

It is clear that English sellers are making a careful study of earnings and dividend yields before parting with their holdings. Americans are now, it goes without saying, the best securities that the foreign investor can hold, from the point of view of business prospects, and they are abandoned with considerable reluctance.

While the offering of the new 4½ per cent. loan has resulted in a certain amount of selling by investors who do not pay much attention to the question of selecting the most favorable time for their sales, the total volume of this class of sales will probably prove to be small in comparison with the stocks that will be held until our market rises so that sales may be made to the best possible advantage. Further foreign selling on advances must be expected. England is bearing the principal burden of the Allies' financing and this will undoubtedly necessitate a constant slow liquidation of American securities held by the United Kingdom.

* * *

THE offset to this foreign liquidation is found in the rapid accumulation of capital in America, as brought out in the first article in this issue. Our own issues of new securities are now small and idle capital is abundant in our banks. If new issues are not provided for this capital, it may naturally be expected to flow in part into the old issues already listed and actively traded in, unless this movement is deterred by the timidity of investors. Without doubt fear will be an element in the case, in view of the war, but it will not entirely prevent the movement of idle money into existing stocks

and bonds; and when the improvement in business conditions progresses far enough so that the attitude of the public mind becomes more confident, a strong buying movement in the stock market would naturally be expected to result.

If any large amount of foreign government bonds should be placed in America, the situation would be materially modified. There are apparently well founded rumors that $100,000,000 of the British 4½s will be taken by our bankers. So far the American public has not shown much hospitality to foreign bond issues and it may well be doubted whether any great quantity of such securities can be placed here.

* * *

HIGHER money rates in England are probable within a month or so. The Bank of England's reserve ratio is now down to 16 per cent., against 40 per cent. a year ago. This is partly the result of preparations for the war loan, which have involved a considerable increase in deposits. Subscriptions to the loan are due July 20 and after that date a greater money stringency in London is almost a certainty.

The government, of course, has entire control over the situation and will manage to prevent any extreme rates, but our very low exchange rate on London will make firm money rates there a necessity.

There must, in fact, be a steady rise in interest rates throughout Europe as the war continues and the question of how much American capital will be attracted by the higher rates will become increasingly important. With England paying 4½ per cent. for money now and France 5 per cent., it is probable that the date is not far distant when foreign government bonds would readily be offered in America at a 6 per cent. rate if it was felt that any large amount of capital could be obtained in that way.

Some bankers believe that American investors will eventually furnish immense sums to aid the Allies in financing the war, because of the high interest rates that can thus be obtained and the constant accumulation of idle capital on this side. Down to date we have furnished perhaps $150,000,000 to the nations at war. How much this amount can be increased must remain an open question for the present.

* * *

A MORE immediate impetus to prices is found in our relations with Germany. As this is written the reply to our note has not yet arrived and rumors in regard to its probable contents are varied and conflicting. As Germany is situated, she can hardly afford to abandon submarine attacks on English commerce. She is plainly playing for delay and compromise.

An important feature in the situation is the great advance in submarine construction that has been made by Germany. Her latest submarines are in reality small cruisers, far more effective than any submarines heretofore built, and easily capable of operating in mid-ocean, or of reaching this country if necessary. If their attacks on commerce continue it might easily be possible that marine insurance rates would rise to such high figures as seriously to affect our foreign commerce.

The revival of business in this country is so greatly dependent on war orders that such an extension of submarine activity might conceivably administer a considerable check to our activities.

It is this that seems to us the most threatening prospect. That we should actually become embroiled in the war is almost unthinkable under the circumstances. A reasonable spirit of compromise on the part of both nations should certainly find some way of guaranteeing the safety of American citizens on the high seas.

In the midst of so many uncertainties the future of the stock market is unusually difficult to foresee. The great fundamental factors on which investors are accustomed to base conclusions are without doubt in favor of higher prices for stocks, but it is easy to believe that their operation may be deferred or rendered much slower than would be the case under normal conditions.

Taking Two Profits on Your Money

Making Your Capital Produce Income and Profit at the Same Time

By FREDERICK LOWNHAUPT

EFFICIENCY methods might as well be applied to every dollar of capital an investor has, as well as to the work in a factory. The manufacturer attempts to get as near 100 per cent. of work out of every machine or employee, why should not the investor plan to get as near that amount of work out of every dollar he puts into securities?

A difference in the position of the manufacturer and the investor is just this: That the manufacturer can expect full efficiency all the time, whereas the investor cannot get the same results all the time because of changing conditions.

That is to say, when certain securities are yielding a low rate of income, the application of principles to be later shown do not accomplish what they do in a time like the present, when a high rate of income can be gotten on many high grade securities.

For instance, at the high points of the stock market in 1909, and to a considerable but lesser degree in 1912, when high grade stocks were yielding less in many instances than the broker would charge you to carry them, operations like those we shall show could not be carried out with any great degree of success. Not only could they not be carried out without success because the interest on the cost of the stocks would have been more for the average individual than the amount of income they returned, but the tendency of prices of the securities was either downward or about to turn that way, making it doubly disadvantageous.

In other words, the highest efficiency to be had from the investor's dollar comes when all securities are low in price, and the better class are yielding more in dividend return than it costs to carry them.

Upon this basis the following examples have been constructed. Essentially, they involve the idea of owning some securities outright that yield a good return which may be considered an income, and the use of these securities in the carrying of others or the purchase of high grade dividend paying stocks along with others, making the dividend received from the stocks produce enough to carry the whole group.

There are many variations that suggest themselves when considering such an operation. The position of the investor regulates this somewhat. The degree to which such operations can be carried out also depends on the position of the investor largely. In the cases where outright purchases are made, the amount of capital originally invested is the limit of the second step in the operation. That is, if 10 shares of Atchison, for instance, are bought, it means approximately $1,000 capital in use, and the second group of securities to be superimposed on this $1,000 will total in cost about that much.

In the second class of operation where securities are bought on margin, in one case the amount of dividend on one part of the group determines the number of shares that may be taken into the other part of the group, as in Plan V, while in Plan VI a little different situation exists, making it possible to obtain greater profits, but involving the use of a little more capital.

We shall consider six plans, each of which may be put into execution now with prospects of substantial profits to the investor. But before we study briefly each of these plans in detail, we should see just what stocks of high character may be used, and what rate of income they are returning on the present level of prices. The most satisfactory on the list are given in the accompanying table A.

In Plans I, II, III and IV the bonds and stocks are bought outright.

The element of disadvantage in this plan is the distance some of these stocks are from their conversion price. For instance, Union Pacific bonds are convertible at 175, that is, you must give $175

TABLE A

RAILROAD STOCKS.

	Dividend Rate	*Yielding about*
Union Pac.	8%	6.25%
Pennsylvania	6%	5.60%
Atchison	6%	6.00%
Gt. Northern	7%	5.90%
Nor. Pacific	7%	6.50%
N. York Cent.	5%	5.60%
Kan. City So. pfd.	4%	6.75%
Nor. & West.	6%	5.81%
Lehigh Valley	10%	6.70%
C. M. & St. Paul.	5%	6.2 %
Sou. Pacific	6%	6.76%
INDUSTRIAL STOCKS.		
Am. Beet Sug. pfd.	6%	6.90%
Am. Smelt. & Ref. pfd.	7%	6.00%
Am. Sugar Ref. pfd.	7%	6.45%
Am. Tel. & Tel.	8%	6.50%
Cent. Leather pfd.	7%	6.75%
U. S. Steel pfd.	7%	6.50%

par value of bond for one share of stock. With Union around 127, about 50 points from the conversion privilege, it is manifest that it would be some time before the conversion privilege would really work much effect in the price of the bond, or before it would become really valuable. However, the sentimental effect of a rising market in general is valuable for all convertible bonds and their stocks, and in many instances even where the conversion privilege is far away, the bonds have a good advance along with the stocks. In this case, then, you get a sympathetic advance in the bonds with the stocks, and where the conversion privilege is somewhere near the ruling price of the bonds like in Atchison, where they are convertible $100 for $100, the chances of profit are large and near.

In a case where the bonds are not convertible for a year or two the investor must consider the position of the general market, and what is likely to be the trend until the time when his bonds will become convertible.

The purchase of convertibles means that your money is working only in one way for the time being, but the element of speculation, as some choose to call it, that lies in the convertible privilege, is making the money work to greater advantage than were it put into other bonds of high character, but without the convertible privilege.

As a matter of fact, the idea of speculation in buying good convertible bonds is almost negligible. While they may not have a mortgage on the property, if that concern is showing a large margin of safety for all its funded debt, why should that fact count greatly against the bonds? The only part of the money paid for a convertible bond which may be said to be put to speculative use by that operation is the amount paid over and above what the bond should sell for on a strictly investment basis.

In the majority of convertible bonds there is the likelihood of appreciation in price, and in a rising market the second chance to make a profit by turning it

PLAN I.

Buy Convertible Bonds.

This gives you a good return on the security in the form of income, a possibility of profit in the appreciation in the price, safety of principal and a chance to convert the bonds into stock for a second profit in the advance in the stock.

	Bonds	*Income*	*Possible appreciation in bonds*	*Possible appreciation in stocks into which these bonds are convertible*
So. Pac.	5's	5 %	6	10
So. Pac.	4's	6 %	5	10
Un. Pac.	4's	5.4%	5	15
Balt. & Ohio	4½'s	7 %	10	15
A. T. & S. F.	4's	4 %	5	10
C. M. & St. Paul.	4½'s	4.8%	5	12

PLAN II.

Buy High Grade Stocks Letting the Dividend Carry Cheaper Stocks.

This would enable you to buy the highest grade rails or industrials with the idea of using the dividend from the high grade stocks to pay the cost of carrying the cheaper stocks, the rise in the medium grade stocks to be the principal profit making part of the operation, although the high grade stocks advancing at the same time would still further increase the profit.

High grade stock Bought	*Approx. Cost*	*Div. Yld.*	*Amt. of Div.*	*Amt. of stock this div. would carry at 5%*	*No of shares Purchasable*
5 Un. Pac.	$637	6.25%	$40	$800	20 Erie 1st Pfd. or 30 K. C. S. Com.

into stock and selling that at an advancing quotation.

Under this plan the intention is evident. Here is a high grade stock used to carry lower grade securities on the assumption that the broker would charge only 5 per cent. on the money advanced. The total amount of the second grade stocks is higher than the total cost of the original lot because we are assuming that the carrying charge is 5 per cent. If, however, it should be 6 per cent., the investor could still buy as much as the total cost of his orginal 5 Union Pac. five, and have the ¼ per cent dividend on the 5 shares left over.

If, instead of buying Erie 1st preferred or Kansas City common, neither of which pay a dividend, although Erie preferred may before a great while, some cheap dividend paying stock like American Car & Foundry common, 2 per cent. dividend, were taken, the advantage would be still greater.

It is therefore in the appreciation in price of the lower grade stocks that the profits will be made. In a big upward market from ten to twenty points may be expected on these lower grade stocks. The large number of shares that may be bought under this plan augurs well for a handsome profit.

Here you are working in the highest grade of securities in either class. You first buy the highest grade bonds in which depreciation, and for that matter, appreciation is very slight, and with them you buy an equal amount of the highest grade stocks, pledging the bonds as collateral for the stocks.

Here again the fine income on the stocks bought carries them with a slight margin over. You do not get so much appreciation in these stocks as you get in some of the more speculative or lower grade issues, but you have the sense of satisfaction in knowing that everything you hold, while subject to the general influences that affect the market, are fundamentally sound, and that the idea of eventual loss is absolutely out of the question. It is an easy way for the investor of rather timid temperament to make his money do double work at no cost to him, while he gets a steady income from the bonds.

In this operation there begins to appear the chance for considerable profits. First, in the semi-investment bonds, and then in the stocks purchased with the bonds as collateral. If this be varied so that medium or lower grade stocks are bought, the possibilities of profit increase.

A careful and judicious selection of medium grade bonds, those on properties which have been weak, but whose bonds are practically safe, will in an upward market and with improving industrial and railroad conditions, show handsome profits. By holding this class of security the investor not only gets a substantial income from the bonds, but he gets a large possibility of profit from appreciation in principal. By this appreciation his stocks become all the better secured. Add to the profit accruing

PLAN III.

Buy Highest Grade Bonds and Pledge Them for High Grade Stocks.

This would enable you to have the highest degree of safety in the collateral you offer for security, give you on that collateral a fair income, say around 4¾ per cent., permit you to purchase an amount of high grade stocks equal to the amount of bonds pledged, which stock yielding nearly 6 per cent. in dividends, would carry itself and give a little additional profit, assuming that the cost of carrying the stocks was 5 per cent. or 5½ per cent. Some brokers would charge 6 per cent. all the time.

Bond	*Approx. Price*	*Income*	*Money Rep.*	*Approx. no. Shares Purchaseable*	*Dividend Yield on Stocks*
Balt. & Ohio 1st. 4's.	89	4.65%	$890	7 Un. Pac.	6.25%
L. & N. (L. & E. Div.) 1st. 5's	99½	5.05%	995	10 Atchinson	6.00%
Nor. Pac. p. l. 4's....	90	4.45%	900	10 St. Paul	6.2 %

on the medium grade bonds the profit from appreciation in the stock, plus whatever may be left over from the stocks after paying the carrying charge, in addition to the income from the bonds and the plan presents great opportunities for skillful investment.

Care in selection of the bonds gives a large element of safety. The high grade stocks mentioned need no commendation. Everyone knows they are among the best on the list.

In this operation we turn from the highly conservative method such as shown in Plant III, for instance, and become somewhat speculative, yet we minimize the element of speculation as much as possible by buying a goodly portion of the highest grade stocks. The fact that we are buying on the mortgage or margin plan, and are also taking up some of the cheaper, medium grade stocks in our group, gives the speculative tinge to the operation, while the holding of the best stocks on the list puts something of investment into the plan.

For the person who wishes to conduct an operation of this character no better plan could be devised since the

PLAN IV.

Buy Semi-Investment Bonds and Pledge Them for Other Securities.

This gives you the opportunity of appreciation in this semi-investment class of bonds, reasonable safety, an attractive income of around 5½ per cent., and the possibilities of profit in the appreciation of the stocks purchased.

Bond	*Approx. Income*	*Approx. Amt. of money rep.*	*No. of Shares Purchase-able*	*Div. Yield*	*Appreciation that may be expected on bond*	*Points apprecia-tion to be expected on each share of stock*
So. Ry. Devel. 4	6.50	$640	7 St. Paul	6.2	$100	20
S. A. L. Adj. 5.	7.10	650	5 Un. Pac.	6.25	100	15
Erie Gen'l 4....	6.00	680	7 N. Y. Cent.	5.60		10
			1 K. C. S. pfd.	6.90	100	15
Rep. I. & St. 5.	5.45	935	8 Un. Pac.	6.25		15
			1 N. Y. Cent.	5.60	30	10
Am. Ag. Chem. 5	5.95	930	9 Atchison	6.00	30	12

PLAN V.

Buy High Grade Stocks and Medium Grade Stocks Both on a Broad Margin.

This would enable you to buy a small number of highest grade stocks and a larger amount of cheaper grade stocks, making the dividend on the high grade stocks carry the whole group, and getting a substantial profit from appreciation in both classes of stocks.

High Grade Stocks	*Medium or Low Grade Stocks*	*Approx. Total Cost*	*Margin*	*Amt. Div. Rec.*	*Approx. Amt. of Int. needed to carry the whole group*
10 Atchison 6% div....	10 K. C. S. com.	$1,250	$300	$60	$55.00
5 Un. Pac. 8% div...	20 S. A. L. pfd.	1,335	600	40	40.00
5 C. M. St. P. 5% div..	10 Cen. Leath.	850	350	25	27.50

elements of income, investment and speculation are so balanced as to give it the stamp of reasonable safety.

But withal there is still in it the opportunity of considerable enhancement in principal because both the high grade and the medium grade stocks are certain to have a substantial appreciation in a rising market.

If medium grade railroad or industrial stocks are substituted for these high grade issues, the element of profit from appreciation becomes greater, but then the element of safety decreases and the decline in such a group of stocks is likely to weaken the structure of the whole plan. Of course, in a plan like this, the amount of money put in as margin yields no return because the entire amount of dividend received from the high grade stocks is used to pay interest on the money loaned you by the broker.

Here we have our capital in the form of bonds yielding a good income, and the bonds pledged to support some stocks which stocks are to yield enough to carry themselves. It is rather a conservative plan because the stocks are bought with a protection of 40 points in the form of bonds. Aside from its conservatism it differs from Plan V, also from the fact that the original capital is put to work producing income. In that sense it is superior to Plan V. It presupposes more capital to work with

PLAN VI.

Buy Bonds and Pledge Them as Security for Stocks on a Broad Margin.

This would enable you to get an income of 4¾ per cent. on high grade bonds, 5½ per cent or more on medium grade bonds, and by pledging them for dividend paying stocks of high quality the dividend would carry the stocks, and possibly leave a little over if the charge were not as high as 6 per cent., besides giving you the appreciation in the stocks as a clear gain.

Bonds	*Income*	*Value of Bond*	*Stocks on a 40% Margin*	*Dividend Yield on Stocks*
1 N. Y. Cent. Deb. 6..	5.60%	$1,040	10 St. Paul	5.6%
			10 Atchison	6%
			5 Un. Pac.	6¼%
1 Balt. & Ohio 1st 4..	4.75%	875	10 K. C. S. pfd.	6¾%
			5 Gt. Nor.	5.9%
			7 Sou. Pac.	6.76%

since in Plan V small lots of stock may be held in that double fashion on a comparatively small amount of money. Plan V is of greater speculative character, and is also of greater possibilities of profit. In this plan little or no appreciation may be expected in the bonds, but as an offset to this the owner gets the income.

It is in the stocks bought on a 40-point margin that he comes in for his profits. He holds these high grade stocks, gets a good income from them, a little of which even goes to him if the broker charges no more than 6 per cent., and besides gets the possibilities of a 10 to 15 point advance in their price. For the business man, or one unacquainted with the ways of semi-speculation this commends itself most.

What, Why and How to Buy on Partial Payments

The Partial Payment Plan of Buying Securities

By HOWARD H. PAINE

THE partial payment method of investment, as it is becoming more widely known and understood, is attaining a gratifying popularity with the small investor. There are thousands of people who would welcome the opportunity to place their savings or surplus incomes in sound dividend-paying securities, but who imagine that it is first necessary to accumulate a considerable sum to do so. Many do not realize that it is not only possible to purchase even one share of a good stock, but that the payment for that share may be made on a conveniently arranged monthly payment basis. By conservative advertising, special booklets explaining the plan, etc., many responsible Wall Street firms are advancing this plan and opening a large field among a class of people which has hitherto regarded the savings bank deposit as its only safe investment.

Experience in this line has shown that there are a great many business women, who, while they save an appreciable portion of their salaries, do not understand that such savings (however small) can be judiciously invested in high-grade listed securities to return a good income yield.

Women generally do not know how to secure investment information. They dislike to go into a broker's office to obtain that information. But partial payment buying can be done just as well by mail. This service is as readily available to the resident of Burlington, Vt., or Seattle, Wash., as it is to a New Yorker.

An inquiry by mail brings to the purchaser a very complete booklet explaining the method in detail, and in most cases enclosing a suggested list of good stocks and bonds showing their dividend rates, approximate prices and income yields at those prices. The return to broker of a properly filled in order card and funds to cover the first payment, is all that remains to be done. Thereafter, the necessary instalment is forwarded to the broker to reach him on the first of each month, and on completion of the purchase the security is transferred to the buyer's name and forwarded to him.

Those who lack investment knowledge, or who are unfamiliar with stock market usage, seem reluctant to ask a broker's advice or to request him to purchase small lots of securities. However, the partial payment method is helping to

Payments Required on Partial Payment Plan.

STOCKS.	First Cash Payment Per Share	Monthly Payment Per Share
Stocks selling from $150 to $200 per share	$50	$5
Stocks selling from $100 to $150 per share	30	5
Stocks selling from $50 to $100 per share	20	5
Stocks selling from $30 to $50 per share	15	3
Stocks selling under $30	10	2
BONDS.	**Per Bond**	**Per Bond**
$1,000 bonds, per bond	$100	$50
$500 bonds, per bond	50	25
$100 bonds, per bond	10	5

allay this hesitancy, and the potential small investor is gradually learning that the genuine service offered by a reliable broker is freely available to him.

Almost the first question that comes to many prospective investors not familiar with the plan is: "Do I forfeit the amount I have already paid in should I at any time be unable to meet the monthly payments?" The answer is, of course, "No," and for the reason that the purchaser is actually the owner of the securities being so purchased, which are in effect held by the broker as collateral for the amount remaining unpaid. When that indebtedness has been adjusted by the monthly payments the purchaser acquires full title to the security, and it is delivered to him. Therefore the purchaser may sell his holdings at any time—either to take the profit accruing from an appreciation in value, or for any other reason, and the broker remits to him the net proceeds of the transaction.

Another distinct advantage of the partial payment method is that it permits the diversification of an investment by the purchase of smaller lots of varied securities rather than a larger amount of one particular issue.

The three combination purchases suggested meet the three requirements which should always be borne in mind when investing on the partial payment method, or otherwise, viz.:

a. Safety of principal;

b. Fair income return—commensurate with such safety;

c. Ready marketability.

A $10 bill and succeeding payments of $2 per month will secure the purchase of a good stock on partial payments.

Of course the careful investor will always make sure that his account is to be with a reputable firm before embarking on a savings campaign of this nature. He should also try to avoid the speculative idea. He should buy the best secured issues and those whose dividend records and prospects are good. He should analyze the securities suggested to him for purchase and determine whether they meet the "A. B. C." requirements mentioned.

If a partial payment buyer is genuinely desirous of investing his savings to advantage, uses fair judgment in the selection of his securities, limits his purchases to an amount on which he can meet the necessary payments, and restrains any tendency to sell out his holdings when a rising market gives him a point or so profit—he will, in a comparatively short time, receive tangible proof of his thrift in the acquirement of actual stock certificates or bonds which can be laid away to earn a good return on the investment.

To sum up, the advantages of the partial payment method are:

That it encourages systematic saving;

It does not require a large initial outlay;

On the average, a year completes the purchase;

All dividends from the date of the first payment are credited to the purchaser;

The buyer can sell his holdings at any time, or he can pay the total amount due at any time and receive his securities;

The plan admits of distributed investment.

Combination Purchases of Partial Payment Plan

Combination Purchase requiring an initial payment of $50. and monthly payments of $15.

	Interest and Dividend Rate	Price About	To Yield About
1 share—Atchison, Topeka & Santa Fe Ry. Co.	6%	101	5.9 %
1 share—Baltimore & Ohio R. R. Pfd.	4%	72	5.6 %
$100—Bethlehem Steel 1st Refunding Bond, 1942	5%	96	5.27%

Combination Purchase requiring an initial payment of $100. and monthly payments of $25.

1 share—Union Pacific Ry.	8%	129	6.2 %
1 share—Norfolk & Western Ry.	6%	104	5.8 %
1 share—Baltimore & Ohio R. R. Pfd.	4%	72	5.6 %
$100—Montana Power Co. 1st and Refunding Bond, 1943	5%	91½	5.60%
$100—Central Leather Co. 1st Mortgage Bond, 1925	5%	100	5.00%

Combination Purchase requiring an initial payment of $500. and monthly payments of $145.

2 shares—Gt. Northern Ry. Pfd.	7%	119	5.9 %
2 shares—United States Steel Pfd.	7%	109	6.4 %
2 shares—American Telephone & Telegraph Co.	8%	123	6.5 %
2 shares—Northen Pacific Ry.	7%	108	6.5 %
3 shares—Southern Pacific Co.	6%	89	6.7 %
2 shares—Central Leather Co. Pfd.	7%	104	6.7 %
$1000—Chicago, Milwaukee & St. Paul, Convertible General Mortgage Bond, 2014.	5%	105	4.75%
$300—Norfolk & Western Ry. First Consolidated Bonds, 1996	4%	94	4.28%
$300—Montana Power Co. First & Refunding Bond, 1943	5%	91½	5.60%

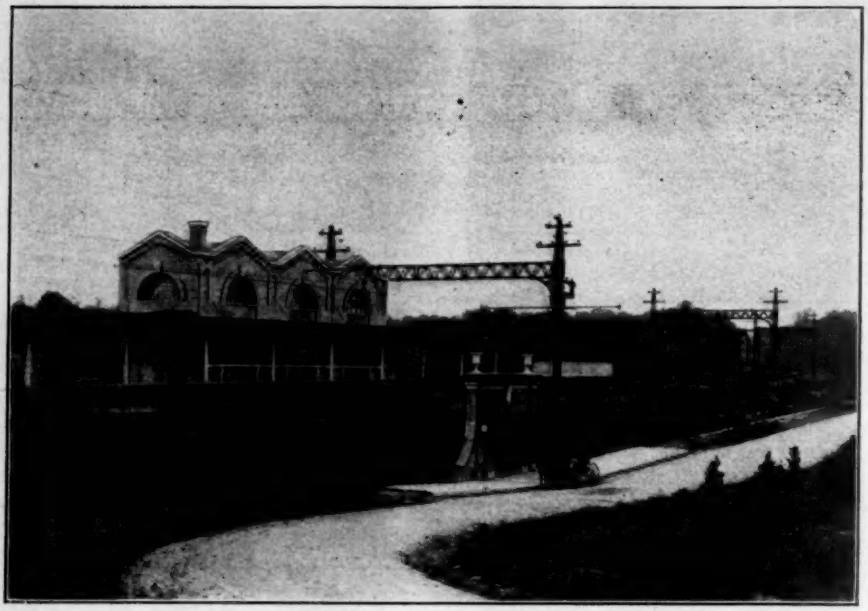
The merit of the plan is attested by the large and rapidly increasing number of investors all over the country who are accumulating capital by buying on the partial payment plan, thus placing their savings in sound securities.

Hints for Investors

WATCH the trend of earnings in the railroads and those that are showing the biggest improvement are fit subjects for study to see if their bonds are not a good purchase. There are some such bonds that are now apparently very cheap.

THE senior bonds of a railroad that has a good record for margin of safety are a purchase when that road happens to be showing a poor year. If the margin of safety is usually big and one year it happens to o[illegible]dle because of peculiar conditions the chances are its senior bonds will be cheap at the bo[illegible]m of such a dull period of earnings.

CONVERTIBLE bonds that are exchangeable for stock at a high figure are not as good a purchase as others that are convertible around par providing the stock is a reasonably good security. A high price of convertibility usually means that the company is paying big dividends. Big dividends sometimes come down and often are in danger which means the stock is likely to sell at a low point for some time.



Typical Station on New York, Westchester & Boston Railroad

The Reconstruction—Present Position

The New New Haven

By JOHN J. LEARY, Jr.

Part II

WITH the increased cost of everything that enters into the operation of a railroad that synchronised with the New Haven's acquisition of the Boston & Maine came a period of poor business in New England. There were a thousand demands for money here and there in propositions that the road was committed to and this money came hard. In some instances the means adopted to get it were not what the management would tolerate today, but the existing laws or rather a conflict of laws of the New England States made these legal fictions necessary.

Also about this time the storm of criticism that had been brewing in New England for years broke. New England, naturally conservative, can be as radical as Kansas once it gets started. To meet the criticisms the mistake was made of employing large lobbies and utilizing tons of printer's ink to hold newspapers in line.

As the road began to go backward financially, as it was bound to until the new properties and adjustments became profitable, the attacks upon the company increased. And upon the top of this began a series of railroad accidents worse than had ever befallen any American railroad. Attacks redoubled in vigor and upon all sides the company was under fire. The natural result was demoralization of the employees, the usurpation by labor organizations of power that did not properly belong to them and trouble all along the line.

In the midst of this Mellen was deposed and Howard Elliott called in from the West. It was J. P. Morgan the younger who called him after he had peremptorily ordered Mellen to quit (according to Mellen's sworn testimony in Washington). Mellen, who had really done good work for the New Haven, had become the best disliked man in New England. For him no one seemed to have a good word. He could do nothing that would escape criticism. An unfortunate trick of making cutting remarks did not add to his popularity. So as a matter of necessity he was let go.

Into the maelstrom of trouble thus left vacant Elliott was thrown about two years ago. Practically unknown in New York outside of railroad circles, his election stopped crticism. It might be more correct to say that he stopped it by declaring the day that he was elected that he proposed (1) to make the road absolutely safe for travel, cost what it might; (2) that his would be the open door policy so far as the public was concerned; (3) that no man in the service of the road who was doing his work well need fear removal; (4) and that there would be no more lobbying.

There were probably twenty reporters present when he declared himself. To them he looked good and his talk sounded better. As one man they agreed that better times were in sight. The next day the press as one man bespoke for Elliott and the New Haven a fair trial. Elliott had swung the press his way. To do it he spent not one cent, where under the old regime fortunes in the guise of advertising had been spent without result.

Elliott's initiation was the toughest ever railroad man had into office. The morning on which he was to take office one of the worst wrecks in the history of the road occurred before he was out of bed. Of that wreck Elliott took personal charge and when the right of way was cleared the word was passed up and down the line, "The new old man is all right." To the railroaders a president who knew the work as well as any of them was a revelation and contrary to all precedent on a road where the president had worked only in his office.

That wreck, let it here be noted, was the last one on the New Haven. In the 21 months that have followed not a passenger has lost his life through accident caused by other than himself. The reason is that immediately thereafter Elliott set about making the road safe. New signal and safety systems were installed and new operating rules, the strictest in the world, laid down for the guidance of train men. The unions, as was to be expected, protested and voted to strike. Their leaders saw Mr. Elliott and decided it was not worth while pressing the matter with a president who worked in his shirt sleeves and could give them points about their own particular branches of railroading.

Meanwhile he had set about cleaning up the board of directors itself. For one thing it had too many members and was unwieldy. For another there were men on the board whose presence had ceased to be of value. Gradually these men were induced to quit gracefully. That, I have reason to believe, was in line with a plan agreed upon with Mr. Morgan, with W. Murray Crane, probably the most efficient man on disagreeable tasks in New England, and with Arthur T. Hadley, who before he was a college president was recognized as the leading railroad economist in America.

As these directors were being eased out Elliott was getting acquainted in New England. Between his desk and public speaking he was working 12 to 16 hours a day seven days to the week. The nights that he was not talking money with Mr. Morgan he was looking for a chance to reduce expenses. Next to him the hardest worked men in New England were his secretaries. They worked in relays and longed for the old days when they had time to think.

Then expenses began to drop. But unfortunately receipts also dropped. Wherever the closest scrutiny developed waste it was cut out. Right on his own desk Elliott began. As I write I have before me a letter bearing on company affairs. It is on a neatly printed letterhead that any grocery man could afford.

The cost of the sheet on which it is written is perhaps one-tenth of the price that is usually paid for the fine stationery usually employed by railroad chiefs. In the stationery account of the offices alone $40,000 was cut in a single year.

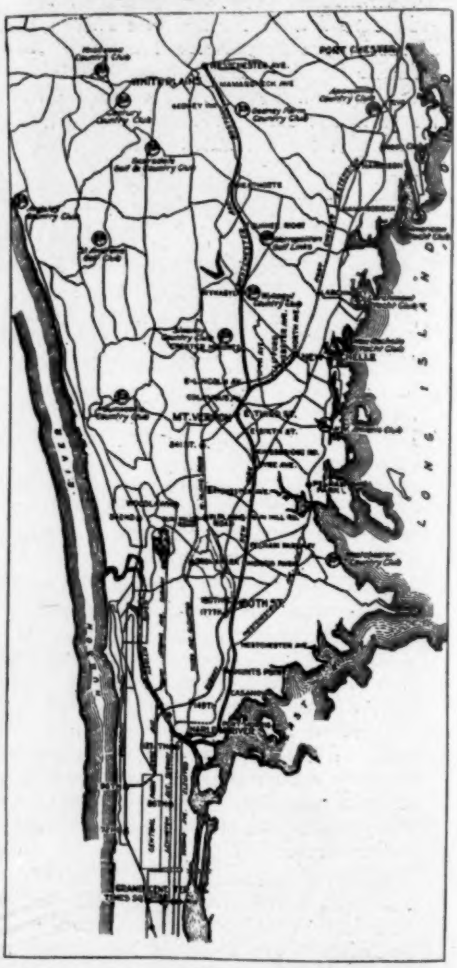
When the new president was not economizing he was trying to raise money. The road was threatened with bankruptcy when he set in on the job. To get more money was a severe task. But he got it, sometimes at the last moment, but always in time. Then, when things began to look up a bit he took a vacation at the orders of his doctor. Before he could start the Interstate Commerce Commission began an attack upon the road. Congress too took a hand. Federal grand juries followed with indictments. And then came the dissolution suit.

All these cost the road money, but the new management went through unscathed. It finally agreed to dissolve, but when the department of justice laid down its terms, Elliott balked. The department wanted what in effect was confiscation. Up against an impasse, the White House itself appealed to the road to be good and take its medicine. That appeal was made to Arthur Hadley.

Hadley went to Washington and talked matters over with the President. Later Elliott and Crane went along for the same purpose. Finally they agreed on a compromise. The compromise saved the face of the Department of Justice and cost the New Haven nothing. Removed from the sugar coating the agreement was what the road had originally offered. It will be many a day before that decree becomes effective. When it does, if it ever does, the stockholders of the road will have no cause to criticize the acts of the men who arranged the "compromise."

In this litigation it is significant that the government did not even request that the Westchester, always damned as a New Haven load, be dropped. Had the management wished to throw this property over there would have been little protest from the public or anyone else. Instead it went to work further developing. It is even now arranging to spend $7,000,000 on an extension that will tap the main line in Connecticut and take from it the burden of the losses caused by the commuter traffic.

It costs the New Haven over 30 cents to land a passenger in the Grand Central.



N. Y., Westchester & Boston Territory Served

Terminal costs on the Westchester are nominal. By it it is possible to carry the suburban traffic, even under the existing subway conditions, at a profit. Now it is necessary for the traveler via the Westchester to go from its terminal in the Bronx to the existing subway via

	Operating Income	Operating Expenses and Taxes	Deficit
January, 1914	$29,308	$49,487	$26,718
April, 1914	34,340	41,385	13,699
June, 1914	36,136	41,084	17,651
September, 1914	36,811	42,864	12,916
December, 1914	38,043	45,617	14,382
March, 1915	36,135	45,048	24,564

N. Y., Westchester & Boston—Comparative Statistics.

a shuttle train. When within two years the new subways now building are completed, passengers will step from the terminal into a subway train that will land them downtown or in Brooklyn in less time than it takes them to reach Wall street from Washington Heights now.

That, of itself, spells enormously increased population in Westchester and the Bronx and increased revenues.

Incidentally it always guarantees the New Haven, which hitherto has had no New York terminal of its own, a terminal that in after years is bound to be worth more than the entire system cost.

In the meantime, however, the Westchester is beginning to pay its way. Just what it is doing the above figures show.

The January, 1914, figures show a deficit of $154,522 for seven months as compared with $240,760 in the corresponding seven months of 1913. Ten months of 1914 showed a deficit of $223,358 compared with $333,622. One year ending June 30, 1914, showed a deficit of but $246,923 compared with $334,554.

The first three months of the present fiscal year showed a deficit of but $40,060, a drop of almost exactly $25,000. In December the six months' deficit was $72,385 as compared with $119,763. In March the nine months deficit was $119,474 as compared with $195,315 a year previous and $303,012 in the corresponding nine months of 1913. Analysis of these figures show that it cannot be long, even with present conditions, before this "incubus" will earn a surplus over operating costs and begin paying its board, i. e., the interest on its bonds held by the mother road.

That work, it should be said, is what L. E. Miller, president of the Westchester, is doing. Up in his office in the Bronx he is working quietly, but none the less effectively.

In the first article I showed how the New Haven as a whole has picked up in net earnings. Since that was written the worst financial feature of the situation has been wiped out. That was the situaton created by the conflicting laws of the New England States which made it impossible for the New Haven to borrow money in a rational way by issuing bonds or preferred stock. That unification of laws Elliott has succeeded in getting. He got it despite the lobbyist who tried hard to force their employment. He did it by showing the public that the New Haven must have relief if it is to live. And with that legislation through, and the road in a position to go into the market on the most favored terms to borrow money, the last of the financial clouds went away. Now that it can have money when it wants it, that money is going to be cheap, so cheap that, compared to the rates it is now paying on short term stuff (about 7 per cent., including commissions and renewals), the saving will run into millions.

That is why in a public utterance Mr. Elliott said daylight is ahead for the New Haven. From now on he will have all his time to devote to his hobby—intensive railroading—in the cultivation of which lie the dividends New Haven stockholders have been missing.

For this vast change Mr. Elliott hogs no credit. Not long since he wrote to a friend who had spoken well of his work:

"I have done what I could, but I have had good support from the officers and men of the New Haven road, who, I am sure, are imbued with the desire to do right in every way."

A Representative American Industrial.

General Electric Company

Prospect for 1916 Earnings—War Orders.

By NORMAN MERRIMAN.

THE balance sheet of most industrial companies presents a difficult problem to the investor who is anxious to determine the value of the actual assets behind the stocks or bonds in question. Nowadays "goodwill" seems to be the most important individual asset behind any particular common stock that we may pick out. Another item which is also given a great degree of prominence is that of patents. Still another asset the value of which the investor must take largely for granted is the inventory. The inventory may be carried at an excessive value or at an extremely low one, and in this way the value of the securities may be be made to appear large or small, at the will of the directors of the company.

It is, therefore, a pleasant as well as an unusual experience to delve into the balance sheet of such a corporation as the General Electric Company. Patents and good-will are carried on this company's books as having a total value of $1 Goodwill and patents are perhaps the hardest thing in the world to appraise accurately, but the value of these assets of the General Electric Company is probably as great, if not greater than that of any industrial corporation in the United States. In buying the stock of this company, the investor can be certain of at least one thing, namely, that the company has not been enormously overcapitalized, through the issue of watered stock representing assets of intangible and dubious value.

The General Electric Company was incorporated in 1892, to manufacture electrcal apparatus and appliances of all kinds. It has acquired the control of a number of companies, either through the ownership of the entire or a majority of the capital stocks. Among the more important companies are the following:

Edison Electric Light Company.
Edison General Electric Company.
Thompson-Houston Electric Co.
Thompson-Houston International Electric Co.
Bristish Thompson-Houston Co., Ltd.
Stanley Electric Co.
Sprague Electric Co.
Electrical Securities Corporation.
Electric Bond and Share Company.
Canadian General Electric Co.
National Electric Lamp Co.

Of the above companies the Edison General Electric Co., the Thompson-Houston International Electric Co., the Thompson-Houston Co., the National Electric Lamp Co., and the Sprague Electric Co., have been merged and dissolved. The Electrical Securities Corporation and the Electric Bond and Share Co. are holding companies owning the controlling interest in a large number of electric railway, light and power, gas and water companies in various parts of the United States. These two companies have been highly successful and are paying substantial dividends to the General Electric Co. on the shares which it owns. Both companies have a substantial surplus, and if it were at any time necessary for the General Electric Company to increase its income, it could readily be done by declaring an extra dividend on the stocks of these companies.

The dividend of the General Electric Company is about as substantial as that of any important American industrial corporation. No dividends were paid from the time of organization until 1899, all surplus earnings having been put back into the business. In 1899 3 per cent was paid, in 1900 6½ per cent, in 1901 9 per cent.; and since 1902 the company has declared a regular payment of 8 per cent. In addition a stock dividend of 66 2/3 per cent was paid in 1902 and one of 30 per cent. in 1913. Through the declaration of these stock dividends the average annual dividend the holder of General Electric has received during the past

fourteen years has amounted to about 14 per cent. on the original capital, and the par value of his holdings is now more than twice as great as it was in 1901.

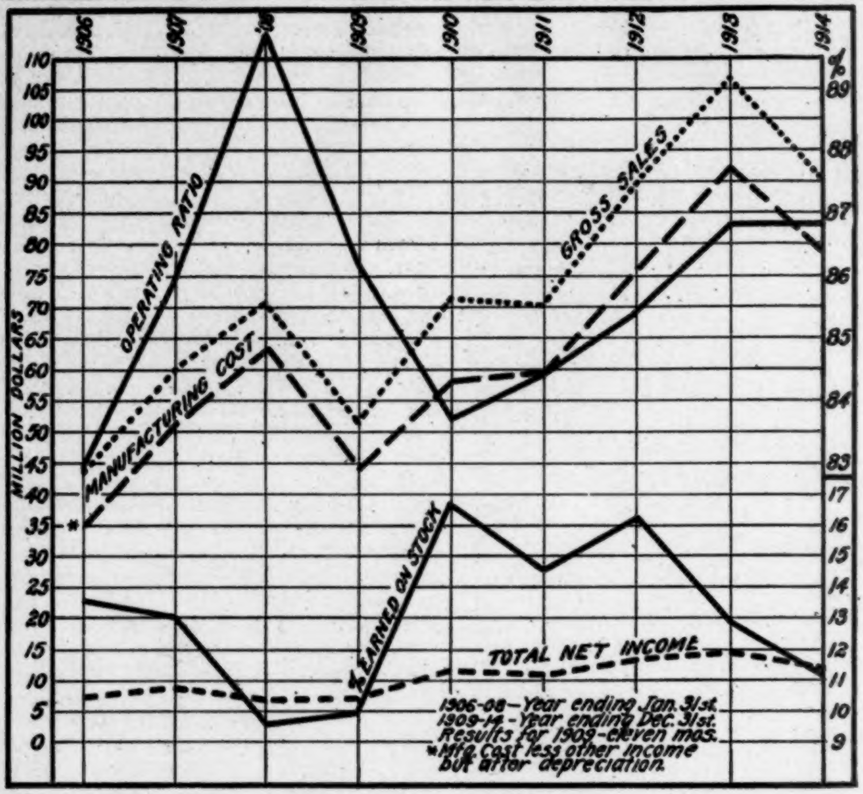
The most important individual factor contributing to this steady increase in the prosperity of the company has been the growth of the public utility corporations of the United States. As the largest manufacturer of electrical equipment and electric lamps in the country the company naturally has secured a large part of the most profitable orders for these articles, but the size to which it has grown would have been impossible had it not been for the marvelous increase in the number and size of the public utility corporations of this and other countries during the last ten years. It is, consequently, worthy of note that the leading competitor of the General Electric Company, the Westinghousehouse Electric and Manufacturing Company, came to grief during this period, and was thrown into a receiver's hands. Of course it is true that the Westinghouse Company would probably never have been forced into a receivership had it not been for the violence of the panic of 1907, which made it practically impossible for it to obtain extension of various maturing obligations. It is, therefore, a tribute to the able management of the General Electric that even during this period of storm and stress it was not even necessary for it to reduce its dividend.

In considering the future of the company, however, we must take into consideration the probability that the expansion of the public utility companies during the next ten years is likely to be much smaller than in the past ten. Almost everywhere the rural districts are now supplied with electric light, and traction lines run like a spider web over the country. All these companies will require a great deal of new equipment to replace that which is worn out or superannuated, but it is safe to say that, except as regards water-power developments, there will be no such period of new construction of electric light and traction properties in the next decade as the last decade has witnessed. Of course there is still a great field for development in South America, Asia and Africa, and the impoverishment of Europe by the present war will make it much easier for American manufacturers to compete in those fields than it has been in the past, but it must be remembered that the financing of new construction will also be more difficult.

It is, consequently, illogical to expect any such increase in the gross sales of the company as has occurred in the last ten years. During this period gross sales increased from $39,000,000 in 1905, and reached the high-water mark of $106,000,000 in 1913. This is an increase of about 175 per cent. in eight years, or more than 20 per cent. per year. If the same ratio of increase were to apply for the next ten years, the gross sales by that time would reach a figure approximating $300,000,000. It would seem probable that the company would establish a brilliant record if it were able to bring its gross sales up to $175,000,000 in this period, the more so as new construction of public utilities in the United States is now practically at a standstill, and has been ever since the outbreak of the war.

It is more than likely, however, that the war itself will bring relief for the falling off in the company's business, of which it has been the cause. For a long time there have been persistent rumors that the company has received large orders for various munitions of war, notably shrapnel shells and cases. The company itself has given no official confirmation of any such orders, or of their volume. Nevertheless more than three months ago, visitors to the company's plants reported men at work machining shrapnel, and this was before the important contracts received by such companies as the American Locomotive, the Westinghouse Electric, and the New York Air Brake, were even gossiped about. Recent reports place the "war orders" the company has received at a figure of at least $75,000,000, and while there has been no official statement, confirming or denying these reports, it is well known that the company has contracted for supplies of various kinds which indicate conclusively that they are at work on such orders.

It is probably fair to estimate that there will be a falling off in the normal



Essential Comparative Statistics

	1906x	1907x	1908x	1909x	1909o	1910b	1911b	1912b	1913b	1914b
Total net income in thousands....	7,394	8,502	6,948	5,509	7,151	11,573	10,933	13,110	14,065	11,855
Per cent. earned on stock	13.50	13.05	9.6	7.4	9.95	16.64	14.54	16.20	12.88	11.12
*Total sales	43,146	60,071	70,977	44,540	51,656	71,478	70,383	89,182	106,477	90,467
†*Mfg. cost	35,752	51,644	63,389	39,021	44,505	59,905	59,450	76,072	92,412	78,612
Operating ratio ...	82.9	85.9	89.9	87.7	86.2	83.7	84.4	85.4	86.8	86.8

* In thousands of dollars.
† Manufacturing cost less other income, but after depreciation.
x Year ended January 31.
o Eleven months ended December 31.
b Year ended December 31.

business of the company during the present fiscal year, amounting to 15 per cent. This would mean that the net earnings would decrease about $1,250,000. If the company has received war orders for $75,000,000 of various products, or for even half this amount, the loss in net from the falling off in normal business should be converted into a gain of at least twice this amount, as a result of this new business. Unlike many companies who are obliged to buy a great many special tools and machines to handle these orders, the General Electric should be fairly well equipped for these special manufactures, and such new machines as it needs it should be able, to some extent, to build itself.

In sharp contrast to the great majority of industrial companies the General Electric has very few bonds outstanding. The company has outstanding capital

stock to the amount of about $101,-000,000. The total funded debt amounts to about $12,000,000, the interest on which has been earned, on the average, *about twenty-two times over during the last three years.* Although these bonds are not mortgage obligations, but are simple debentures, they should be ranked among the very finest industrial bond issues. Generally speaking, the mortgage obligation of an industrial corporation is worth comparatively little in case the earning power of the company falls off to such a degree that foreclosure becomes necessary, for second-hand machinery and factories are not usually salable at more than a small fraction of their original cost. The security behind any industrial bond is the earning power of the company, and it is rare that we find a corporation which is earning twenty times the interest on its bonds.

Another feature worthy of note is that the company has no floating debt of any character, nor has it had any notes payable outstanding in any year, except one in the last ten years. It is amply supplied with working capital, which has averaged about $73,000,000 for the last three years. The strength of the company's position at the end of 1914, when the directors many industrial corporations were at their wits' end to secure cash to meet current liabilities and interest payments, is evidenced by the fact that there was cash on hand amounting to more than $22,500,000. The company has always had a remarkably large ratio of working capital to gross sales, the lowest percentage during the past decade having been 69½ per cent., while the average has been about 85 per cent.

Still another feature worthy of commendation has been the company's allowances for depreciation. At the close of the last fiscal year the net tangible assets of the company were given as slightly more than $121,000,000. When the company was incorporated the value of its plants was given as approximately $4,000,000. Since that time the expenditures on these properties have amounted to $75,000,000. The book value before depreciation would therefore now amount to $79,000,000. During the 22 years of the company's existence depreciation of machinery, plants, etc., has amounted to $48,000,000, leaving the present value of the company's plants as $31,000,000. It is probable that these plants and their equipment could not be reproduced for less than twice the amount stated in the balance sheet, so that the book value of the stock, exclusive of any allowances for the almost invaluable good will and patents of the company is probably conservatively estimated at $150 per share.

Equipment Bonds and Car Trusts

EQUIPMENT Bonds and Car Trusts seem to offer an excellent investment; meeting the requirements,—security, marketability and interest return. Their security has been repeatedly demonstrated in the record of receiverships, their market is active and close, and the interest yield obtainable is considerably in excess of that from the best mortgage bonds of the same railroads. In the history of receiverships, any instance when the Equipment Bonds have not been paid is practically negligible; the Courts recognizing the necessity of the cars for the operation of the railroads and ordering payments for them as a current expense; while it is of course well known that high grade mortgage bonds have suffered in the same rehabilitations. Under the various agreements the cars cannot be seized for the railroad's debt. Their market through their increasing popularity is active, and the higher interest yield obtainable is possibly due to shorter maturity and consequent chance of proportionately smaller appreciation. Usually from ten to twenty-five per cent. in cash is paid on the equipment, and the bonds issued for from 75% to 90% of the cost. They generally mature in equal installments every half year or every year and run from ten to fifteen years. There is a constantly increasing equity, as the annual payments are in excess of the depreciation of the equipment; the title to which remains with the trustee until final payment. The Railway agrees to keep insured against fire, to maintain in good order and replace lost or destroyed equipment. Nearly all are in $1,000 coupon form, a few are in $500 denomination and some issues may be registered.

Write our Investors' Service Department for list of these securities issued by a reliable firm of investment brokers. Ask for list B-1.

Why the Public is Rubber-Tired

Elastic Earnings and Rubber Dividends

Some Observations, Explanations and Comparisons

By NORMAN MERRIMAN

ON Monday, June 21, United States Rubber closed at 65½; on Friday, July 2, ten market days later, Rubber sold at 44¼, a decline of 21¼ points. On June 21 there was not a single rumor or thought among the rank and file of the best informed people in the Street that the dividend would even be reduced at the coming meeting of the directors; on July 1 the dividend was passed altogether.

The drastic action of the directors, coming after a series of dividend declarations at times when no one would have been greatly surprised at a reduction in the rate, obviously called for some explanation from the officers of the company. The explanation given by the board of directors follows:

> **Directors of United States Rubber Co., having heard the suggestions of the president in regard to the payment of a dividend on the common stock at this time, and having fully considered the question, are unanimously of the opinion that the excess of earnings over dividend requirements is too small to warrant the payment of this dividend at this time in view of the amount of the company's floating indebtedness, the additional capital required to develop new lines of business, and the uncertain conditions arising from the European war.**
>
> **In their view a sound and conservative business policy requires that the money necessary to pay a dividend on the common stock be used to reduce floating debt and to increase working capital; and they believe that this action will strengthen the position of the company, and in the end increase the value of both the common and preferred.**

Detailed comment on this explanation seems unnecessary. It might be mentioned in passing, however, that the margin of safety for the dividend in 1914 was greater than at any time since the company inaugurated dividends several years ago, and there seems to be no doubt of the fact that earnings so far this year were at least as good, if not better, than last year. If the margin was satisfactory last year, why is it not now? The uncertainties resulting from the war were much greater in the fall of last year, when the exchange was closed, than they are now. Furthermore, the table presented herewith (Table I) will show that the company occupied a far stronger position at the close of 1914 than at the close of 1913, as far as its floating debt and other current liabilities are concerned. The natural question to ask is: *Why was action not taken in* 1914 *rather than* 1915?

Table I

	1914.	1913.		
Loans and notes payable..	$17,910,104	$19,905,837	Decrease	$1,995,733
Accounts payable	3,595,515	5,549,771	Decrease	1,954,156
Cash on hand..........	10,276,726	9,990,159	Increase	286,567
Surplus	20,005,323	19,129,504	Increase	875,819
Bonded debt	30,219,500	30,810,800	Decrease	591,300

The Deadly Parallel

(Statement made Oct., 1914)

The dividends (preferred and common) have been amply earned. The finances of the company being in an easy condition, with $8,000,000 cash on hand, I think the action of the board is not only conservative, but one that is entitled to commendation in these times of war and financial stress. The division of $1,700,000 at this time between 15,000 stockholders will, I am satisfied, do much good and be most thankfully received.

(Statement made July, 1915)

The net earnings of the company so far this year are substantially the same as those of last year and as a rule the earnings of the latter half of the year exceed those of the first half. Should directors determine to suspend common dividends for a time, the company will undoubtedly be greatly strengthened thereby, and it is not unreasonable to believe that such action in the end will prove more advantageous to our common stockholders than the present distribution of cash.

Following the statement of the board of directors, President Samuel P. Colt made a supplementary statement, certain portions of which are extremely interesting. A statement was made by him at the meeting of the board last October, when put side by side with that just issued, makes a parallel which must prove illuminating reading to the common stockholders.

In addition to the excerpt given above, President Colt made another statement of especial interest to those U. S. Rubber stockholders who received their stock in exchange for the stock of the Rubber Regenerating Co., which was acquired two or three years ago:

> In 1911, after considerable pressure on the part of common stock stockholders, dividends at the rate of 4% per annum were begun and continued at that rate until April, 1913, when the rate was increased to 6% per annum.
>
> This increase was made in order to effect the purchase of the Rubber Regenerating Co., which company was paid for by the issue of $6,000,000 of the common stock of the United States Rubber Co.

The above statement, which is labeled by the *New York Sun* as "President Colt's Confession," may prove somewhat of a handicap the next time that the U. S. Rubber Co. makes a proposal to swap horses.

Commission houses throughout the Street have been overwhelmed with inquiries from speculators and investors as to what to do with Rubber bought at prices above 60. The following comment from the *New York Sun* of June 30 should prove useful to anyone finding himself in this position:

> A New street cynic has solved to his own satisfaction the problem of what action is to be taken in the Rubber dividend next Thursday.
>
> "Why," he explains, "that's so simple as to be almost elementary. It hangs on the market itself. If the speculative crowd dominant in the market is able to cover its shorts and make other necessary dispositions of its forces the regular dividend will be paid. If enough stock does not come out, and this cannot be done, it stands to reason that the dividend will be passed. That's all there is to it."

What Should Investors Do?

In making up one's mind regarding what to do with Rubber bought at higher prices the following factors should be taken into consideration:

1. Rubber is selling at about the *lowest price* recorded since 1911.
2. President Colt is authority for the statement that *earnings* are *now about the same* as last year—the *best* year in the history of the company.
3. The bad news is now out, and as far as dividend action is concerned, nothing worse than the passing of the dividend can occur. Since there have been no reasons to believe that the passing of the dividend was due a falling off in business, it is only logical to expect that *any changes will be for the better rather than for the worse.*
4. There is sound evidence that *a large short interest* in Rubber now exists; these shorts will not be likely to

cover unless the market goes down materially or up materially. If the speculative interests which are dominant in the stock were to depress it much further in order to accumulate it, they would have to make purchases in competition wtih the short interest. On the other hand, if they decide to accumulate stock at the present levels, or on a slightly advancing scale, the short interest will be kept in and will prove a useful lever in advancing the stock when another bull campaign is begun.

5. Earnings for the *last fiscal year amounted to* 8 *per cent.* on the stock. This figures *nearly* 18 *per cent. on the price of* 45. Those who have watched the "Bargain Indicator" in this magazine will realize that it is almost always profitable to buy stocks for a long pull when the earnings on the price approximate this figure.

6. The bottom or the top of any important move in a stock is usually made on a much larger volume of trading than is normal for the stock in question. The volume of Rubber dealt in on the way down was unusually large, but on the day following the passing of the dividend, 36,750 shares were dealt in. This is more Rubber than has appeared on the tape on any single day for many months.

7. With a decline of 21 points in ten days, and an apparent culmination of the decline being made on very large transactions following the publication of bad news, it is only logical to expect at least a moderate rally.

8. The generally prosperous condition of all leading rubber companies, the steady improvement in all industrial business throughout the country, and the fact that the Sumatra plantations of the U. S. Rubber Company are just beginning to bear fruit after much expenditure and a number of years of patient waiting, all indicate that *there should be better things in store for the stockholders of this company.*

Blow to Public Confidence

The unfortunate part of the Rubber episode is the effect that it will have on the public mind. There has been sufficient comment on the affair in the press to make the public as a whole believe that the break in the stock and the passing of the dividend were only a speculative coup on the part of certain large operators in the stock. This incident, following on the heels of the Rock Island exploit, will furnish food for Wall Street's critics for a long time. Coming at a time when public confidence in security dealings generally was decidedly on the increase, the incident is most unfortunate. Any good accomplished by the "patriotic action" in paying the dividend last year is far more than counterbalanced by the evil resulting from this blow to public confidence.

Book Reviews

The Business of Mining. By Arthur J. Hoskin, M. E. 220 pages, with illustrations. Lippincott. $1.60 postpaid. For sale by THE MAGAZINE OF WALL STREET.

The mining stock speculator, whose knowledge of ore-producing properties and methods is limited to the free information disseminated by promoters, will find it a profitable investment of money and time to buy and study this volume. It is written simply, by a practical mining man who has evidently come into direct contact with all sides of the game.

From "What Is a Mine?" to its "Finding," through the Location of Claims to the questions of Incorporation, Equipment and Management, clear statements are made in regard to the many factors of the business which puzzle the average city man whose ideas of mine dumps, dead work, adits and amortization are apt to be mixed. Even the stockholder in a booming zinc property can, for example, find out in these pages by what systems spelter quotations are made public. The book is worth while.

Public Utilities, Their Present Value and Return. By Hammond V. Hayes, Ph. D., Consulting Engineer. 203 pages. D. Van Nostrand Co. Price $2.10 post paid. For sale by THE MAGAZINE OF WALL STREET.

This treatise reviews the attitude of the public toward public utilities and attempts to indicate the true relation which, according to the author's beliefs, should exist between such companies and the users of their services. Questions of rates are taken up, as is the ascertainment of fair value for property, upon which value just rates may be based.

Investment Digest

RAILROADS

Atchison.—SURPLUS available for common dividends bids fair to be between $18,000,000 and $19,000,000, or more than $4,000,000 more than last year, judging from report of the eleven months' earnings. Increase in net earnings for the eleven months was $3,560,788. Co. expects to sell $10,800,000 bonds shortly.

Atlanta Birmingham & Atlantic.—NOTEHOLDERS of the $8,000,000 notes for which the collateral has been sold expected to get about 25c. on the dollar out of their debt. Expected they will act together to conserve their security.

Baltimore & Ohio.—EARNINGS made excellent gains in May. Net earnings increased 68% over same month last year. For eleven months net was $1,410,724 above those of the corresponding period last year.

Boston & Maine.—COMMITTEE representing leased line interests working with directors of the road to avoid a receivership. It is stated, however, that some pronounced plan of reorganization must be put through. Operating conditions improving. Net for 11 mos. was short $773,000 as compared with a shortage of $2,186,000 same period last year.

Canadian Pacific.—EARNINGS not expected to be sufficient to cover the dividend. Gross this year expected to be $30,000,000 less than for the year previous, which means a decline of $40,000,000 from two years ago. Earnings at 1910 level and it is expected considerable new development of the territory will have to take place before earnings come back to high figures again.

Carolina, Clinchfld & O.—NEW EXTENSION from Dante, Va., to Elkhorn, Ky., has just been completed and was opened for operation July 1. This extension is 37 miles long and cost $5,500,000. Shortens distance about 150 miles and reduces time of freight trains 2 days.

Chesa. & Ohio.—GROSS EARNINGS showing best in history of the company, but net has not been equally progressive. Co. has suffered from coal business.

Chic. & Northwestern.—DIVIDEND expected to be earned and ½% remaining over. Co. has suffered from light traffic all year. Official says the property is a 100% road doing a 68% business, in speaking of the condition and efficiency of the property.

Dela. Lac. & West.—RELATION of the railroad company and its coal business was declared by the Supreme Court of the U. S. to be in violation of the commodities clause of the Hepburn Law because of the road's ability to control production and price.

Lehigh Valley.—EARNINGS continue to show improvement. May is understood to have shown good gains in both gross and net Speeding up of the steel industry is helping the road's traffic. Officials have been in New England working for better handling of traffic from that section.

Missouri Pacific.—DRASTIC CONDITIONS face security holders. Assessment of $50 per share is asked of stockholders. Expected that the plan of reorganization will be presented publicly early in July.

New York N. H. & H.—EARNINGS expected to show about 1% on the stock this year. Road is making substantial gains in earnings. Retrenchment all through the organization has been the word during the past year. Maintenance has been scaled down but not to a harmful degree.

Norfolk & Western.—SURPLUS available for common stock expected to be about $9,000,000, or close to 8%. Gross showed considerable falling off during year but by savings net did not decrease so much.

New York, Ont. & West.—DIVIDEND payment omitted, making the second year it has been omitted. Surplus available for dividend expected to be about 1%, comparing with 1.1% in 1914. Coal traffic has been bad.

Pitts, C. C. & St. L.—DIVIDEND on both common and preferred stocks deferred. Directors said that "while recent earnings show improvement, directors deemed it wise to defer action until results of the year would be fully known."

Pennsylvania Co.—DIVIDEND reduced through the deferring of the P. C. C. & St. L. dividends. Penna. Co. controls about two thirds of the P. C. C. & St. L. stock.

Phila. & Reading.—WAR CONTRACTS said to have been secured by the Reading Iron Co., which is owned by the Reading Co.

Rock Island.—RECEIVERS' CERTIFICATES to the amount of $2,500,000 allowed by the Court to pay July 1 obligations. Court order provided however that no money should be paid as interest on the debentures, which interest is due July 15 unless the court determined that earnings are sufficient for that purpose, and applicable thereto.

Seaboard Air Line.—EARNINGS for eleven months showed $400,000 in excess of all charges and full interest on the adjustment bonds. Regular interest of 2½% semiannual was declared on the adjustment bonds. Rumored that the company has in view a permanent plan of financing which will put it in a good position for a long time ahead.

Southern Pacific.—COURT DECISION allows the company to retain 2,373,000 acres of valuable timber land in Oregon. Argument was over the S. P. Co. selling timber lands to settlers in a way thought by the Government to be not in accordance with the terms under which it acquired the lands.

Southern Ry.—NET EARNINGS increased $382,000 in May, first large increase

for some time. Actual net was the best of that month for a number of years. For the fiscal year gross earnings expected to be $8,500,000 less than last year.

Wabash-Pittsburg Terminal. — REORGANIZATION PLAN has been proposed. Provides for assessment of 30% on the first mortgage bonds. Capitalization of new company will be only $44,700,868, of which only $5,100,868 will be represented by bonds.

Western Maryland. — GROSS REVENUE for current year will be largest in history of company. Excellent traffic arrangements with coal companies largely responsible. Increase. Co. will default on its notes due July 1. Some plan for reorganization is being considered.

INDUSTRIALS

Allis-Chalmers.—BUSINESS shows improvement in all lines aside from the war work. Mining machinery is beginning to be called for due to the high price of copper and other metals. As a result of better business expected Co. will reinstate the wage schedule reduced a few months ago.

American Agricultural.—BALANCE for common stock for year closing June 30 expected to be about .7% compared with 7.6% in 1914. Co. has been rather fortunate in comparison to other fertilizer cos.

American Can. — WAR ORDERS amounting to $30,000,000 said to have been received by the company. Gross business considerably ahead of last year in spite of lower prices.

Amer. Car & Fdy.—ANNUAL REPORT for the year ended April 30, shows net earnings of $3,615,054 compared with $5,810,889 in 1914 and a balance after payment of the preferred dividend of .7% on the $30,000,000 common stock compared with 5.52% in the year previous.

Amer. Locomotive.—PLANT at Paterson to be started on full time on an order for 20 engines for Belgium. Operations of the co. being increased and at present time far above the percentage of last year this time.

American Smelting & Ref.—SMELTERS in Mexico at several points will shortly be blown in to increase production in lead. Talk about raising the dividend rate from 4% to 6% as a result of the improved business of the company. Directors say nothing on the matter has been talked about. Expected Co. will do a tremendous business during coming year.

Amer. Sugar Ref.—EARNINGS expected to be very good for another year due to the heavy demand for sugar from Europe which is showing a short crop.

Amer. Tobacco.—NEGOTIATING for block of property in Brooklyn. It is understood the company plans to erect a plant to employ about 1,500 hands.

Atlantic, Gulf & W. I.—EARNINGS for April showed big improvement and was the best month the company ever had. For four months ended Apr. 30, Co. earned entire year's interest on collateral trust bonds with 2.6% remaining for the preferred stock.

Baldwin Locomotive.—ORDERS from Russia believed to be up to a total of approximately $13,500,000. Orders thus far in 1915 have totaled more than the entire year of 1914. Expected dividend on the common will be declared at the next meeting. Co. estimated to have $80,000,000 war orders.

Bethlehem Steel.—EARNINGS on common stock expected to reach 100% in current fiscal year. Aside from war orders, business in all general lines is improving greatly. Co.'s great ore fleet to carry ore from Chile will be delayed some time now on account of the war.

Corn Products Ref.—EARNINGS thus far this year running ahead of last year. Expected hearings in the Government's suit will be resumed in middle of July.

Cramp Shipbldg.—EARNINGS of 10.6% on the stock reported for the year ended April 30. Estimated that the Co. will earn as high as 25% in the year now running, and that declaration of dividends not so very far off. Expected to have big business for some time to come.

Crucible Steel.—WAR ORDERS said to be in the neighborhood of $50,000,000. Co. is putting up a new plant and is also said to have large business from the U. S. Navy.

Du Pont Powder.—OPERATING at full capacity and building more plants. Shipping now 55 carloads a day and expecting to be shipping by end of summer 100 carloads.

Distillers Sec.—LARGE ORDERS for alcohol being executed by the Co. for powder manufacturers. Expected that by the end of the summer the question of dividends on the stock can be safely discussed by the management.

Emerson Phonograph. — CONTRACT with Lorillard Co. closed whereby that company takes 25,500 of the $3 model Emerson phonographs as the first installment of their requirements for the coming year. The contract calls for as many machines and records as the Lorillard or its subsidiaries may require for premiums during the term of the contract and it is estimated that upward of 100,000 phonographs and several hundred thousand 10c. and 25c. records will thus be called for. One of the chain stores has recently placed its initial order for 100,000 of the 25c. two sides 7 in. records.

Electric Boat.—VOTING TRUST established to keep the control of the company in such fashion that its work for the government on submarines will not be disturbed over the next five years.

Fisk Rubber Co.—EARNINGS in the current year expected to run as much as 7% on the preferred stocks and 15% on the com-

mon. Common not however expected to get a dividend because the company has a considerable floating debt which it is desired to take care of.

General Electric.—SUBSIDIARIES doing a large business in war orders, but the main plant not yet engaged in heavy work of this character. Believed the big order for $100,000,000 is still in negotiation.

General Motors. — PRODUCTION expected to be more than 50% greater in 1916 models than in 1915. Expects to produce 100,000 of 1916 models against 65,000 1915 models.

Goodrich, B. F.—EARNINGS expected to show 9% on the common this year. This is based on the estimated profits of the first six months of the year. For the past two months profits have been running at a higher rate.

Goodyear Tire & Rubber.—LARGE stock dividends in coming years believed to be foreshadowed by the recent increase of the capitalization from $8,000,000 to $25,000,000. Co. has much business on hand.

Guggenheim Exploration. — INCREASE in dividend made from 14% to 16%. Co.'s annual income has been increased 2.73% by the additional dividend it is receiving from the copper stocks.

International Motor. — EARNINGS for the present year are expected to show 19% on the $3,600,000 7% cumulative preferred stock. Net for the month of May understood to be as much as $90,000.

International Nickel. — EARNINGS for the current estimated to be far in excess of any previous year. In 1914, a record year, the earnings were 13.3% on the common stock. Expected the next quarterly dividend will be same as last.

Kelly-Springfield Tire.—ENLARGEMENT of the plant being considered. Plant running on a 24-hour schedule. Output running 1,100 tires per day.

Lackawanna Steel. — LARGE CONTRACTS for additional steel and rails closed with foreign governments. Co. recently sold 50,000 tons of rails to Russia. Satisfactory earnings in June with a large increase predicted for July.

Lima Locomotive. — BUSINESS taken during past two months sufficient to keep plants going at practically capacity for balance of the year. At the rate business was received in May or June, Co. will do an annual business of $25,000,000, which would show approximately 10% for the common stock.

National Biscuit. — GROSS BUSINESS for four months ended June 30 equal to about 95% of business for same period last year. Co. safely earning its 7% dividend on the common stock.

Pacific Mail S. S. Co.—GROSS EARNINGS for the year ended April 30, were $5,786,305, an increase over 1914 of $138,000. Last year best Co. had. Not yet decided what will be done with the ships in view of the "Seaman's Law."

Pressed Steel Car.—ORDERED 75,000 tons of steel for construction of the 7,000 cars which it is to build for Russia.

Republic Ir. & Stl.—OPERATING at 90% of capacity. Orders have been running in excess of capacity for some time.

Stewart-Warner Speedometer.—EARNED full dividends during the first six months of the year. President of Co. recently sold 40,000 shares of common stock to New York bankers who offered it to public at 67.

Tennessee Copper.—INCOME of $1,000,000 a year would result if the present rate of output of sulphuric acid continues. At present time producing about 1,000 tons of acid a day. Co. producing at rate of 15,000,000 pounds of copper per year.

U. S. Cast Ir. Pipe & Fdy. Co.—NET EARNINGS for the year ended May 31, were $75,599 as compared with a loss of $59,868 in previous fiscal year. Co. is modernizing its plants, increasing efficiency and enlarging capacity. Volume of shipments during year about the same as previous year.

U. S. Ind. Alcohol.—EARNINGS running double those of a year ago and substantially greater gains are assured in coming months as full effects of the large alcohol orders which have been booked are felt. Expected to show $10 earned per share this year.

U. S. Smelting & Ref.—STATEMENT by directors says that earnings for the first quarter of 1915 were equal to the regular quarterly dividend on the preferred stock and a balance for the common stock equal to 10% per annum. Earnings and business continuing highly satisfactory. Doing quite a zinc business on good prices.

U. S. Steel.—RESUMPTION of dividend on common stock being rumored. Estimated that earnings in second quarter will be well above $25,000,000. If business continues as indicated, earnings deficit will soon be wiped out and then directors are expected to consider dividends again.

Victor Talking Mach.—EXTRA DIVIDEND of 10% declared on the common stock in addition to the regular common quarterly dividend of $5. Thus far this year the total dividends declared on the common aggregate $35 per share.

Virginia Caro. Chem.—DIVIDENDS on a cash basis on preferred stock resumed by payment of 2% quarterly. Southern Cotton Oil which is entirely controlled by Va. Car Chem. is making the biggest profits in its history.

Willys Overland. — PRODUCTION of 100,000 cars planned for the coming season. May was the largest month in the history of the company and 54% ahead of May a year ago. Co. will shortly announce a Knight motored car for $1,000.

Investment Inquiries

NOTE.—Answers as published in this magazine are selected and condensed from the very large number of inquiries received from our readers. All such letters are answered by mail in advance of publication, hence stamped and self-addressed envelopes should accompany them. Subscribers' inquiries are given the preference in order of answering.

Crucible Steel

O. L.—Crucible Steel (27) has recently had a boom on war order talk, but when the speculative interests got it up to 32, they pulled the peg and down it came. It is a somewhat dangerous issue, but when the whole market goes up we expect to see this follow.

The preferred has an accumulation of about 20 per cent. dividend arrears, and under ordinary circumstances this would have to be paid before the common gets any distribution. Reliable and authentic information as to the amount of war order business is not available.

Virginia-Carolina Chemical

L. N.—Virginia-Carolina Chemical common (28) is a long pull proposition. The company paid dividends on its preferred stock for more than 20 years until recently, when the unnatural conditions in the South made it wise to discontinue them for the time being. When normal conditions return we look for full dividends on the preferred, and when that happens the common will have a sympathetic advance, doubtless. Since it has been over 70, in 1911, possibly it will go there again under the most favorable conditions.

American Linseed

B. A.—American Linseed cannot make a showing for its common stock in a long while. The company is controlled by Rockefeller interests, who salvaged it about seven years ago, when the management speculated too badly in flaxseed, from which they make linseed oil, and nearly put the company down and out.

The company's report is notable for what it does *not* tell, as is usual with Rockefeller properties, but it has no bonded indebtedness and is pretty well fixed for working capital. When you consider that it earned but 2.96% in 1913 and 1.83% in 1914 on its preferred stock outstanding to the amount of $16,723,648 and a 7% issue, you can appreciate what chance the common has. In 1906 the common hit 30. The preferred has paid no dividend since 1899, when it was paying 5½% and touched 61 in the market. Since 1906, the preferred has been no higher than 47¾.

Dividends on the common are not discernible, except with the most powerful telescope. Pool manipulations are the only hope of the buyer of this stock now.

Great Western

If Chicago Great Western common goes to 10 or lower, would 100 shares bought outright be a good speculation?—D. W.

A good speculation means one that has chances of an increase in price sufficient to justify the degree of risk. We do not think Gt. Western is in this class. In an upward market you doubtless would get some enhancement in price, but there is not enough substantial earning capacity behind the stock on which to build a strong upward movement.

You have possibly selected this stock because it is so cheap. Among low priced stocks having better possibilities for the long pull we would suggest Erie Common, Seaboard common or Virginia-Carolina Chemical.

St. Paul

J. H.—We unhesitatingly recommend St. Paul stock at present prices (80). Of course if we have a break in the market it may go lower, but if you buy it around these prices you will be likely to see a liberal profit within a couple of years.

Missouri, Kansas and Texas

H. T.—M. K. & T. is in the process of readjusting its finances. Its notes that came due June 1 made the situation look bad for a time, but possibly by another year a financial plan will be worked out. The road needs money, and unless its business picks up wonderfully, the stockholders are likely to be assessed.

J. I. Case

J. F.—The latest information we have on J. I. Case is the income account for the year ended December 31, last. Practically nothing else is available. That account stood as follows: Net profits for the year, $966,698, out of which $850,500 was paid on the preferred stock, leaving surplus $116,198. The net profits were equal to 7.95% on the $12,150,000 preferred stock. The stock is a fair purchase. It has not a very large margin over dividends, as you can see. How they will take care of the bonds due at the end of this year we cannot pretend to say. It is so long off that probably the company has not an idea itself as to what it will do. The season's business may effect the method to be adopted.

American Smelting

P. H.—It would be hard to say whether the present price of Am. Smelting has discounted all the good things about its business. On the basis of its business, it is probably able to pay much more dividends than at present. It is being talked of freely as going to par. When it was receiving 7 per cent., it went to 174 in 1906 on the strength of a big market. If we should have a broad stock market over coming months, Smelting is quite likely to have a big advance. At any rate, there will be the bullish factor of big business and large earnings to help the stock for some time.

MINING DEPARTMENT

Magnitude and Variety of the Company's Operations

"Smelters"

Present Position and Future Prospects of

American Smelting and Refining Co.

By C. S. BURTON

PUBLIC attention has been so largely centered upon the mining end of the metal markets since the outbreak of hostilities in Europe, that it has to a very great extent overlooked the fact that there is anything further required in the satisfaction of the unprecedented demand for copper and spelter than the taking of the ore out of the ground. The big copper producers and the zinc mines, hitherto neglected, have disputed for the center of the stage, where the spotlight is most vivid and the turnstile through which all of this production must pass, and to which it must all pay toll, has been lost sight of. It is of this end of metal production that it is proposed to treat in this article.

By far the most important and successful concern in the field of smelting and refining ores in the entire world is the American Smelting & Refining Company. If one will walk into the new Equitable building on Broadway, and be shot up to the 35th floor, he can be shown into a great room, large enough for an indoor baseball field, and if he can walk straight down the middle of the room to the desk that faces the door through which he enters, he will be greeted by a quiet, unassuming man, who sells more copper than any man in the world. That is the selling end, or a part of the selling end, of the American Smelting & Refining Company.

On the producing side the American Smelting & Refining Company covers the Western continent pretty much from Cape Horn to Behring Straits. It is quite true that not all of these operations are outwardly or primarily for the account of the American Smelting & Refining Company. There are a number of organizations of kindred ownership forming together the most powerful agency in the mining world. It is only possible, in a condensed article such as space compels this to be, to give a skeleton outline of these concerns and the part each one plays.

It is a little hard to realize that the commanding place which the American Smelting & Refining Company has won in the field of copperdom has been achieved within seven years, yet its first sales of copper were made in 1908, and at that time it had an annual production of 50,000,000 pounds. Last year the American Smelting & Refining Company handled 529,686,000 pounds of copper. For practically all of this production the American Smelting & Refining acted as selling agent, as well as smelter and refiner; this means that sales of approximately one and three-quarters million pounds of copper must be sold every working day, equivalent at 13 cents for copper to a money movement of a little less than a quarter of a million dollars. The reader has doubtless many times read in a casual way of some millions of pounds of accumulated stocks of copper, without much comprehension of the vast amount of money involved, and the absolute necessity of keeping that money moving that the flow of metal coming from the mines of the world may not become a back breaking burden. This is the task of

Mr. Murray Guggenheim, who faces you as you enter the door of the great room mentioned above, a task which he divides with Mr. Joseph Clendenin, and it is a work which is growing in immensity at a very rapid rate.

Great as is the place of the company in the field of copper production, it is not to be forgotten that it is a general smelter and refiner of ores, which include gold, silver, copper, lead, zinc, nickel, platinum, arsenic, bismuth, cadmium, tellurium, solenium, palladium, and as a last item of growing importance sulphuric acid. As an incident to its operation the company is also one of the world's largest producers of coal and coke. In the beginning the company was a purchaser of lead and silver ores, which it bought smelted, refined and marketed, and today it is the controlling factor in the lead market of the United States. But recently, when lead began to climb hysterically in price and bid fair to emulate the recent antics of spelter, it was the American Smelting & Refining Company that steadied the market by simply cutting prices to a saner level. Its ability to do this is shown by its proportion of the entire production of the United States and Mexico. In 1914 there were produced in the two countries a total of 537,079 tons of lead, of which the A. S. & R. treated 316,591 tons. With the handling of more than three-fifths of the output of lead, it is unnecessary to add further emphasis to the company's commanding position in the market, a market which has become during past few months one of the centers in the struggle and agony in progress in Europe.

In the precious metals the figures will suffice. The Director of the Mint has estimated the gold output of the United States for 1914 at 4,490,700 ounces; the smelters of the A. S. & R. treated 2,540,911 ounces, or considerably more than half of that outturn. The Mint figures give the United States credit for 67,929,700 ounces of silver in 1914. The A. S. & R. refined more than that total by nearly ten million ounces, treating 77,604,483 ounces during the year. One more dry item of figures showing the volume of the business transacted—the current amount of metal going through the company's plants averages in money value around $25,000,000, and this is kept moving from the moment it is broken down in the stopes of the mine, through concentrator, smelter refinery to the customer, and this tide must not be checked nor obstructed. It must be plain without further words that only a distinct and extraordinary talent for organization could have built up the American Smelting & Refining Company. There is hardly another industry, whose field shows so many wrecks, comparatively speaking. There have been many and loud complaints concerning the exactions of the company, the smaller mining interests have many times proclaimed themselves as mistreated in nearly every possible degree, but the fact remains that, notwithstanding the alleged exorbitant profits made by the A. S. & R., the independents which have started in the field have blown in their smelters and "blown up" almost simultaneously. Undoubtedly one of the reasons for this has been that the smelting industry is not one which can be made profitable on a small scale. A smelter is a big machine, which must be kept going to earn a dividend, the supply of ore must be both large and certain; shut downs are costly, and if repeated evidently prove fatal.

A full knowledge of this condition is responsible for the very large investments which the A. S. & R. and its kindred organizations have in the mining field. It is impossible to cover the field of operations of this company without taking into account also the work of the American Smelters Securities Company, through which a large part of the mining operations are carried on. Working in conjunction with these two companies is the Guggenheim Exploration Company, which is purely a holding company, and by means of which some of the tremendous operations are financed. Underlying these concerns is the firm of M. Guggenheim's Sons, and at last we have reached the source of the power of organization; and the big room, so far above the noise and turmoil of Broadway, is the office of M. Guggenheim's Sons, and it is in fact the

sons of the original M. Guggenheim, with some of their own sons in turn, who occupy it and direct the enterprises that play so large a part in the mineral production of the whole American continent. For them the whole western backbone of North and South America has been and is a storehouse of wealth. From Chile to Alaska; from the Chuquicamata, which is the Chile Copper Company, and the largest known single copper deposit in the world, with the Braden a most respectable second or third, to the Yukon Gold, and the new wonder in copperdom, the Kennecott, in Alaska, making the cheapest copper in the world, stretches the hand of the Guggenheims. It would be a long and dry task to follow the financial details in each instance.

The balance sheets of the Smelting company and the Smelters Securities Company are consolidated, for the year of 1914, earnings were ten and a half millions in round numbers, this notwithstanding the disturbed conditions in Mexico. In 1907, when the copper market broke all price records, the two companies made a consolidated earning of more than fourteen millions, when the common stockholders were rewarded with a dividend of 7½ per cent., as compared with a dividend of 4 per cent. in 1914. Earnings mounted again in 1912 to above fourteen millions, but the previous year had been a lean one, and dividends were not increased. The present position of American Smelting & Refining is an enviable one. The market for copper, lead and spelter has at times in the past risen to high prices, but never under the same circumstances; heretofore, there has always been present the factor of decreased consumption in conjunction with advanced prices; now, the consumption disregards the price and metal production is sold as far ahead as prudent business judgment will permit, and further sales in the future could be made if it were deemed wise. With expanding operations and consequent lessened cost of production, with assured business of large volume, which is certain to grow larger the moment conditions on our own side of the water warrant some return to constructive enterprise and a normal domestic demand for metal, it should be safe to predict a continued era of prosperity for smelters, even disregarding to some extent the duration of the European conflict, and considering the enormous profits arising from present conditions as abnormal. The American Smelting & Refining Company has outstanding $50,000,000 of preferred stock, and a like amount of common. The Smelters Securities Company has outstanding $16,830,000 of preferred "A" stock, which is entitled to 6 per cent. cumulative dividends; it also has outstanding $30,000,000 of preferred "B" stock, which is entitled to 5 per cent. cumulative dividends, which are guaranteed by the American Smelting & Refining Company. All of the $30,000,000 common stock of the Securities company is owned by the American Smelting & Refining Company. The preferred stock of the Smelting & Refining Company is entitled to 7 per cent. cumulative dividends, which have been paid without interruption since 1899, when the company was organized. Simple computation will show that the dividend requirements for the combined companies ahead of the common stock are, total, $6,017,450, and it follows that whatever is to be gained in the way of extra profits from the present extraordinary business in metals will inure to the benefit of the common stock. In 1914, with the latter half of the year seeing business almost at a standstill, the company's earnings were a little more than ten and a half millions, and it closed the year with a surplus of a little more than nineteen and a half millions. Whether the American Smelting & Refining Company can equal during the coming year the record made in 1907, when it earned more than fourteen millions, is a matter of the future, but the enormous profits now being in the metal world would make such an expectation not an unreasonable one.

Mining Digest

Ahmeek Mining.—Increase in Capital stock from from 50,000 to 200,000 shares approved by directors. New shares full paid par $25 are to issued in the ratio of four new shares for each share now outstanding on which $17 a share has been paid in.

Allouez.—Dividend of $1 per share has been declared. Company is producing close to 12,000,000 pounds per annum with costs below 8c. On 23c. copper this means earnings at the rate of over $1,700,000 per annum or $17 per share on the stock outstanding.

American Zinc, Lead & S.—Over 70% of its possible output for the balance of the year has been sold. Talk of strikes in Joplin, Miss., where the Company has mines does not mean much to the company as that part of its output is a small fraction of the whole.

Anaconda.—Dividend increased from 25c. per share to 50c. per share. Progress is being made by officers and directors of Amalgamated Copper in working out the details of dissolution. Anaconda on a production of 300,000,000 pounds and costs of 10c. will be earning $6.50 per share. Expected the output will reach that figure within a short time.

Braden.—Operating at a profit but no dividends likely to be paid on its $6,000,000 stock during present year. Capacity of mill will be increased to accomplish which possible new financing will be undertaken.

Butte & Superior.—May tonnage largest amount in history of company. Report for year ended June 1st shows earnings of $2,638,449 or $9.75 per share compared with $943,317 in 1914.

Calumet & Arizona.—Production running at the rate of 65,000,000 pounds per annum as costs are around 7c. per pound it is figured at current prices for copper earnings will be around $13 per share.

Calumet & Hecla.—Dividend to be received from subsidiaries to be largest on record. Expected to be five times as great as previous year.

Champion.—Dividend of $1 per share paid makes $12 a share in four months.

Chile Copper.—Tonnage of 303,300,789 tons reported with indications that 400,000,000 tons will be reached. Earnings with the present plant in full operation should reach $11,000,000 a year.

Consolidated Coppermines.—$1,000,000 expected to be secured to pay off debt and develop ore bodies. Plan for financing under consideration which it is expected will be put through before long.

Chino.—Production running at the rate of 70,000,000 pounds with a cost of 7½c. which shows about $10 per share.

Granby.—Dividends resumed with declaration of $1.50 per share. Expected the company will distribute this amount regularly. Fiscal year ending June 30 finds the company in best position ever with floating debt eliminated.

Greene-Cananea.—Stockholders may look for satisfactory returns when the company gets on a high output which it can do on the basis of present prices for copper.

Hollinger.—Gross profits for the month ended May 20 were $139,187. Usual dividend of 4% paid.

Kennecott Copper.—Earnings expected to reach $8 per share if high prices for copper prevail production of 6,000,000 pounds expected in June. Earnings for first quarter expected to be $2,500,000. Production sold for three months ahead. First dividend expected shortly.

Miami Copper.—Output for May was 3,268,372 pounds at a cost of 8.4c. per pound. Dividend was increased from $2 to $3 per share.

Mohawk Mining.—Dividend of $5 declared payable August 2nd. Production in May amounting to 1,316,134 pounds was the largest in company's history. For six months ended June 30th net will be approximately $550,000.

North Butte.—Dividends resumed with a declaration of 40c. a share. Company is gradually increasing its output and earnings said to be several times dividend requirements.

Osceola.—Dividend increased $1 per share to $3. Output greatly increased from former figures.

Ray Consolidated.—Production of 75,000,000 pounds at a cost of 8½c. shows the company earnings around $6 per share equal to 24% on the stock at $25 per share.

Stewart Mining.—Earnings will reach $120,000 per month with lead on a 6c. basis. In May company's net was $73,000. Company has now between 1,700 and 1,800 stockholders.

Utah Copper.—Production running about 150,000 pounds annually with costs about 7½c. which should earn around $14 per share.

Utah Consol.—Production running about 14,500,000 pounds of lead at present prices expected to add $580,000 to income account monthly. High prices of copper also would add considerably. The two together would show earnings around $3 per share.

TRADERS' DEPARTMENT

The Law so You Can Understand It

Legal Relation
of
Broker and Customer

Short Account Transactions—Brokerage Failures

By WILLIAM B. DEVOE, *of the New York Bar*

PART III

I WONDER how many members of the speculating public are familiar with the machinery which is put in motion in a "short" transaction? Have you any clear idea of just what takes place when you tell your broker to sell "short" a hundred shares of Steel, for example, and he carries out the order? Such an understanding is necessary in order to grasp the legal principles governing the transaction, and therefore a statement of what happens may be useful.

Obviously, when the broker sells the stock he must obtain it somewhere to make delivery. He may, of course, deliver his own stock, but in the majority of cases he borrows it from another broker, depositing with the lender as security the full market price of the stock, and thereafter, as long as the loan is continued, the sum so deposited is kept at the current market price by payments back and forth between the two brokers, according to the fluctuations of the market. The lending broker has the use of the money deposited with him, and therefore pays interest on it to the other broker, usually at the rate prevailing for "call loans." If the particular stock is hard to get, the borrowing broker may be compelled to waive payment of this interest, in which case the stock is said to be "loaned flat." It may even happen that the borrower is forced to pay a cash bonus for the loan. This is called a "premium." If the lender calls in his loan, the borrowing broker redelivers the securities to him, and in order to do so, borrows them from a third broker under a similar arrangement. This series of loans continues as long as the customer remains "short" of the stock. As the lending broker in each case remains theoretically the owner of the stock loaned, the borrowing broker must pay him any interest or dividends received on the stock, and the lender must pay the borrower any assessment levied thereon, while the stock is in the borrower's possession.

The customer has a direct interest in the transaction just outlined for the reason that his account is charged with any expenses incurred by his broker in connection therewith, these including interest or dividends received on the stock and the premium, if any, paid by the broker for the loan. On the other hand, the customer is credited with the amount of any assessment upon the stock, and with interest on the margin deposited by him with his broker. If the market price of the stock declines while he is "short" of it, the difference between such market price and the price at which the short sale was made, is also margin upon which the customer is entitled to interest.

As to the legal relations between the broker and his customer on a short transaction, the broker is his customer's agent in making the short sale. The law also implies an obligation on the broker's part to obtain the stock to deliver, and in procuring it for this purpose the law regards the broker not as his customer's agent, but as an independent principal who loans the stock to his customer and undertakes to continue the loan as long as the transaction remains

open. This distinction becomes of importance to the customer under certain circumstances, as follows: When the broker who is carrying a short sale for his customer borrows the stock from another broker to deliver, the two brokers by payments between them keep the loan price of the borrowed stock at the market value, as it fluctuates. In case of a violent decline in the market price, it may happen that the lending broker is unable to make the large payment necessary to bring the loan price down to the declining market price, and a loss results to the broker who has borrowed the stock for his customer. If, in this transaction, the broker be regarded merely as his customer's agent, carrying out his instructions, this loss would fall on the customer, in accordance with the well-known rule of law that an agent is not responsible for losses incurred in carrying out the orders of his principal. If, on the other hand, the broker is an independent principal, loaning the stock to his customer, then this loss must be borne by the broker. As already stated, the latter is the view taken by the courts.

The rules governing the carrying of a short account, the necessity for keeping the margin good, the closing of the account by the broker, etc., are the same as in the case of a long account. These have already been discussed in a previous article.

If Your Broker Fails

A painful thought that sometimes creeps into the speculator's mind is this: What will happen if my broker fails? Fortunately, because of the skill and prudence with which business is conducted by reputable brokers, this is a calamity not greatly to be feared. However, it does sometimes happen, and it is accordingly well for the customer to know just where he stands in such a case.

The right of the customer to redeem securities carried for his account at the time of the failure, by paying the balance of his indebtedness thereon to the broker and taking the securities, depends upon two things: (1) Whether the customer can identify the securities, and (2) the situation of the securities at the time of the failure. The identification is sufficient in any of the following cases—where it appears that the precise certificates of stock orginally bought for the customer were still being held for him when the broker failed; where it can be shown that certain particular certificates were then being held for him, even though they were not the precise ones originally purchased; or where it appears that the broker at the time of the failure was carrying a block of stocks of the particular kind purchased for the customer sufficient in amount to meet the demands of all his customers for whom he was carrying that kind of stock, although it may not be possible to show that any particular stock certificates were being carried for any particular customer. If, however, the block of stocks in question is insufficient to satisfy the claims of all customers for that kind of stock, the identification is considered sufficient for each of such customers to claim his proportionate share of the block of stocks in question.

When the customer has sufficiently identified his securities, his right to reclaim them then depends upon the situation of the securities at the time of the failure. If they were in the broker's actual custody, the customer need only pay to the assignee or trustee in bankruptcy the amount of his indebtedness to the broker and take his securities home with him. It is when the securities have been pledged by the broker with some third person that awkward complications arise.

If the securities identified by the customer have been pledged by the broker to a third party by themselves, separate and apart from others, for an amount not exceeding the indebtedness of the customer to the broker, the customer may reclaim them by paying to the person with whom they were pledged the amount for which they were pledged by the broker, and paying the remainder of his indebtedness for the purchase price of the securities, if any, to the broker's assignee or trustee in bankruptcy.

If the broker has pledged the customer's securities separately (that is, not

mingled with the securities of any other customer) for a greater amount than the customer's indebtedness to him, this is an illegal act on the part of the broker. It does not, however, affect the rights of the person wtih whom the securities were pledged, and the customer can redeem them only by paying to such person the full amount for which they were pledged to him by the broker.

Where the broker has used his customer's securities (whether they be securities carried on margin for the customer, or securities owned outright by the customer and deposited by him with the broker as collateral to secure his trading account), mingling them with the securities of other customers, and has pledged the whole for an amount greater than the customer's indebtedness to the broker, the person to whom they were pledged in like manner obtains clear title to the securities. In such a situation each customer whose securities went to make up the whole amount so pledged by the broker, may redeem his securities by paying his proportionate share of the full amount for which all the securities were pledged.

If part of the securities thus pledged in bulk by the broker is the property of the broker himself, the customer may require the person with whom they were pledged to satisfy his claim against the broker as far as possible out of the securities belonging to the broker before resorting to the securities which are the property of the customer. (As to the foregoing rules see *Campbell on the Law of Stock Brokers,* pages 62 and 63).

Of course, if the customer's account is "short" at the time of the broker's failure, there is no question of reclaiming securities. In such case the condition of the customer's account is determined on the assumption that the short sales were covered at the closing market prices on the day of the failure. If this computation shows a balance in the customer's favor, he may file his claim against the bankrupt broker for the amount of such balance. If, on the contrary, it shows an indebtedness to the broker, the customer must pay the amount thereof to the assignee or trustee in bankruptcy, and the latter has power to sue to enforce such payment.

End of the Series

What Does "Buy 100 Reading" Mean?

A Frequent Cause of Misunderstanding

EDITOR of the MAGAZINE OF WALL STREET: I will appreciate it very much if you will kindly enlighten me in regard to the following matter:

Some time ago I ordered the purchase of 30 shares of Reading first preferred when the market quotation was 88. Realizing that Reading is a so-called "half-stock" of $50 par value, and that the quotation is on a percentage basis, I expected to pay 30 x $44, or $1,320, plus commissions, etc. I was very much surprised, however, to receive 60 shares and a bill of a little over $2,640, with the explanation from the Western brokerage firm that since two shares of Reading count for one, according to custom, the transaction had been carried out in this manner.

This matter has led to a controversy, which is entirely friendly, and I have just received from the Western brokerage house through its local correspondents the following statement, which to me is very surprising:

"We note it was Mr. E.'s intention to buy 30 shares of $50 par value each, but it is the custom in our office as well as in those of all brokers with whom we are familiar, to consider orders for these fifty-dollar shares (or half-shares) as meaning in reality twice the number of shares. In other words, if Mr. E. had come into our office and said: 'Buy 30 shares of Reading first preferred,' we would have purchased for him 60 fifty-dollar shares. Therefore, when we received your order of March 27 there was no question in our minds that it was the intention of your client to purchase 30 full-shares, or 60 fifty-dollar shares.

"We are very sorry that Mr. E. was inconvenienced and perhaps he is right that there is no rule of the New York Stock Exchange covering this universal custom, but as above stated, this matter was not an error on our part, but was simply the ordinary interpretation we place upon such orders.

"Our telegraph operator who has been employed in brokers' offices in various parts of the country, New York as well as here, advises us that it has been the custom wherever he has been employed to consider orders for half-shares in the way above explained."

It had always been my impression that investors are occasionally fooled on these so-called half-stocks the other way about, i. e., that they find that they only have to pay one-half what they expected to since they erroneously consider the percentage quotation as being a dollar quotation. Are not Reading shares reported on the $50 basis on the Exchange—for instance, a total sale of 10,000 shares of Reading at 144 would mean, would it not, 10,000 shares at $72 per share? On the London Exchange, Reading is quoted on the dollar basis and if my broker friend is right in his views, there must be an inconceivable amount of confusion in the buying and selling of such stocks as Reading, Pennsylvania, Lackawanna & Westinghouse Electric.

Since it is possible that I may wish to buy or sell certain of these so-called "half-stocks" in future, and also because I should like to have my attitude, if it is correct, supported by you as an authority on such matters, I shall be greatly obliged if you will favor me with a reply.—E.

There is no established custom which would warrant a broker in buying 200 shares of Reading, when his customer's order reads "Buy 100." This is, of course, what the result would be if the broker bought so-called "full" shares (which should really be called "double" shares), instead of shares of $50 par value.

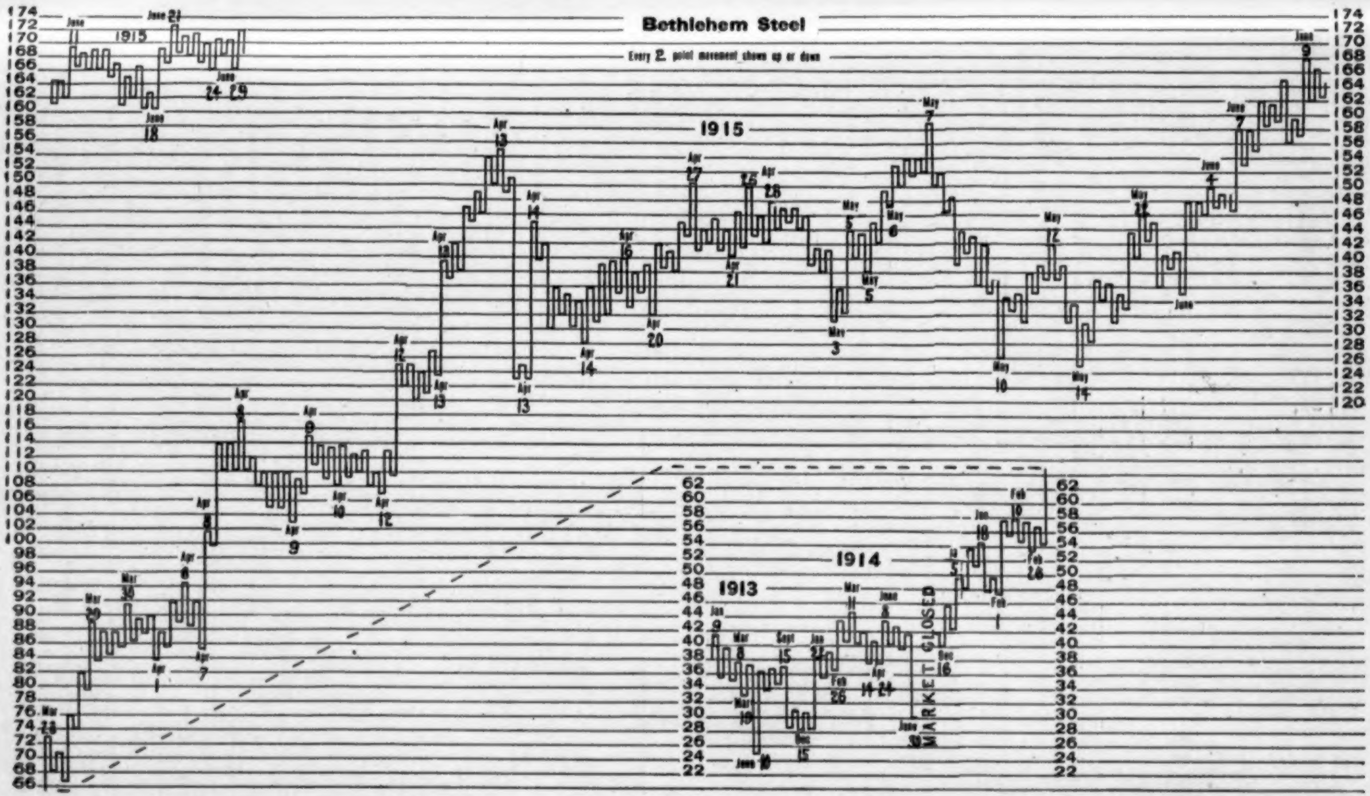
A share of Reading, legally and according to the charter of the company, means $50 par value. The broker has no right to assume that the customer means anything else unless he says so, or previous transactions have indicated that the customer really has "full" shares in mind.

In some brokerage offices the custom of buying "full" shares instead of $50 shares gradually grows up. Some customers may be unfamiliar with the fact that Reading has a different par value from most of the other stocks, and it is therefore necessary for the broker, in accepting an order, to ask whether $50 shares or "full" shares are meant. After the broker has learned from experience that a particular customer always means "full" shares, it is no longer necessary for him to ask when the order is accepted. He buys "full" shares, because he knows that is what the customer wants. If most customers place orders on this basis, it may gradually become the custom of the office to assume that an order for 100 shares of Reading means "full" shares.

This custom, however, is not by any means universal. On the contrary, so far as we are aware, the best Wall Street houses fill the customer's orders exactly as given; that is, for $50 shares —unless he explicitly states that he means "full" shares. In dealing with a new customer, the broker would, usually, as a matter of precaution, ask him whether he meant $50 shares or "full" shares; but if the order is received by letter, so that there is no opportunity to question the customer, we feel certain that it would be regarded as meaning $50 shares by most of the leading investment houses of Wall Street.

At any rate, we feel safe in saying that there is no such generally established custom as would warrant any broker in buying double the number of shares of Reading, or any other stock having $50 par value, specified in the customer's order. If the broker assumes that his customer means "full" shares, he does so at his own risk, since the customer does not say so.

The volume of sales of $50 par stocks is, as you say, reported on the $50 basis.



The above chart gives the details of the most phenomenal rise that has been seen in any stock on the New York Stock Exchange in many years. In 1913, in spite of earnings of 27.4 per cent., this stock was selling for a considerable time below 30. The principal reason for this low price was the announced policy of the company not to pay dividends on the common, but to go on reinvesting the earnings in the enlargement of the plants. After the Stock Exchange reopened last December, the public gradually began to appreciate the wonderful opportunity which the war had opened up for this company, the only big concern in the United States that was in a position to furnish quantities of ordnance and armorplate at once. As reports of big orders continued to come out, the stock began to soar, until in June it crossed 170. Many investors have made big profits in the stock and one group of capitalists is reported to have cleaned up several millions.

Light on a Dark Subject

The Good and the Bad in Motion Picture Securities

By HAROLD S. FINK

The following from a prominent New York daily suggests this timely topic:

"In the film business today there is over five hundred million dollars invested. Every day there are new companies organized. Many of these new companies are good propositions; most of them are not. The film business is hailed on every side by investors and those who would interest investors as an easy road to wealth. It is, if you know how. And that 'know how' is very, very important. You can lose money as fast as you can make it in the film business; in fact, much faster.

"If you don't know the business, our suggestion, and it is a very sincere one, is that you be sure you are dealing with real people before you invest. The film business has gone beyond the question of money. True, money is very necessary, but brains are much more important.

"Brains can do little in accomplishing the big things of the film world without money, but there is no comparison between the task of brains without sufficient funds and the task of much money without the necessary brains. . . . Before you invest in the film world find out what you are about."

The "Get Rich Quick" promoter has a comparatively easy time in the motion picture line. The reason for this is, a great many people have gotten rich quick in the movie business and there seems to be no end to the profitable possibilities of the motion picture. When these "wonderful" promotions are analyzed the fundamentals are found to be the same as in every "G. R. Q." game. Glittering generalities of what other successful companies have done, no risk, all profit, etc. The motion picture faker, however, has the advantage over the ordinary fraud that appeals only to the imagination. Not one person out of a thousand has ever seen a real gold mine—500 out of every 1,000 have probably been in a movie gold mine—a motion picture theatre. The visual signs of prosperity in the motion picture business are universally evident.

The methods employed by the schemers are the same old trusty reliables. A beautiful embossed booklet arrives in the mail telling you that you are one of the favored few to be presented with this wonderful proposition. Often names of important people are used. Some big people are none too careful about the use of their names. You answer, "using the enclosed envelope"—a dapper, genial young scout calls on you—if you are within calling distance of the home office—and unless you decide to die poor, you "invest." Then usually something happens. The excuse factory is worked overtime and your stock you paid $10 a share for is offered in the outside market at $2—no bidders.

Then the old game of sending out scores of representatives is sometimes used. They initiate you into the mysteries of how fortunes are made in motion pictures; then you are given the wonderful opportunity of investing at "the top." If you have money in the savings bank, it's a crime to leave it there—you owe it to your family to withdraw it immediately and hand it over to the philanthropic agent. Cash is usually preferred by the agent—principals themselves have been known to have the G. R. Q. fever so bad that—well, the agent isn't taking any undue chances on getting his commission before the excuse deparment gets busy.

The dollar par is also used. You get more shares (not a larger percentage of the total capital). Some people think 100 $1 shares are a lot more valuable than 10 $10 shares—such people are among the class that rarely ask leading questions before buying.

The safeguard against all this "bunk" is intelligent education on the subject of investment. Until one is qualified to pass on any proposition through personal knowledge or experience in financial affairs it is a wise policy to consult a bank, a responsible magazine (if it has an investment department) or a reliable

broker. Speculate, yes, speculate as much as you can afford to—proper speculation is necessary for the development of any country or any industry—but speculate intelligently. Surely there is no reason for any careful reader to ever lose one dollar in a fake promotion scheme.

There is plenty of action in the motion picture business. A company we know of was incorporated on Friday, took a news feature picture on Saturday and on Sunday was showing it in a Broadway theatre. Anyone who will take the trouble to look into the motion picture business will see it is still in its infancy even though it is going at a furious pace. Who can see such a production as the "Birth of a Nation" and not know that the motion picture is here for all time. The amusement side of the motion picture industry still monopolizes the public interest but shrewd minds are working on the commercial uses as well. Slowly but surely the motion picture is being applied to educational, scientific and advertising purposes. This means more and more profitable opportunities for the placing of capital.

Here are some special points you should know before investing in Motion Picture securities.

Film Company—Through what exchange do they release? What is the nature of their contract with the releasing company? How long they have been operating? Who controls the management?

Feature Film Company—Through what company are the features released? If company releases its own features—how many branch exchanges has the company? How many features have been produced, how many are on hand ready to be released? Who are the directors of the productions? What stars are connected with the company? Where are the studios located?

Film Exchange—Whose programs and features do they handle? How many branch offices have they? How many new reels do they handle each week?

Theatre Company—Is the company formed to operate only one theatre or a chain of theatres? If a chain how many theatres are now operating? Where are they located? Who manages these theatres? What is the seating capacity? What admission do they command? What is the weekly overhead cost of each theatre? Insist on detailed account. What program is used? What other theatres are located near by—what is their seating capacity—what program do they use? Are there any practical motion picture men among the directors? Is the property owned or leased? If leased, for how long?

Advertising Company—How and where are advertising films to be shown? What is the average price per foot obtained for such films? What is the cost per foot? Has company made any films to date? If so—name and describe a few.

Educational Company—How are educational films to be exploited? If through an exchange—on what terms? If the company expects to release independently—how? In both advertising and educational companies an unusual amount of practical film knowledge is necessary. Better ask an authority on the motion picture business for an opinion before considering companies of this kind.

Film Laboratory—What is the capacity (in feet) per day? What contracts are already signed up and with whom? What is the overhead charge? Has the plant been passed on by the fire department?

Even after you are personally satisfied any motion picture proposition is attractive it is best to get an expert opinion of it before investing. You can speculate or invest in any motion picture security that is backed up by character, brains and capital with unusual chances of success—but avoid the "G. R. Q." fakes. *Investigate first.*

DON'T follow war order bonds up too far. Remember that they get nothing of the extra profits of the company and their price may be boosted too high.

Technical and Miscellaneous Inquiries

Both Sides as to "Diversification"

I like to receive your magazine and take great pleasure in reading every word of it. I agree with it in a great many instances, but sometimes I see things that I do not fancy.

Several times I have noticed in different periodicals advice to investors to diversify their holdings. Now, I have done this for years and I find that a person will never get ahead the least bit that does it, for when one stock goes up a few points another will go down.

Until last year I took all that advice and saw that all there was in it was the dividends, which just about pays the board on the money when not in operation.

I think a better way to do with money is to collect enough together so that eventually the owner can buy 100-share lots of stocks regularly listed on the New York Stock Exchange. Then buy into the best, after making a complete study of them. WAIT until you *know* the stock is low, then buy, that is all there is to it. The selling comes in anywhere above the price paid. Some people sell at 10%, others wait for a 15% profit; but in either case, after selling, wait until you get the same stock or some other at a low price before buying again.

I have tried this on the same stock several times since January 1, and have made money every time.—G. H.

We do not advise anyone to purchase a considerable number of different stocks or bonds simply for the purpose of diversifying his holdings. If, however—as is usually the case—there are a number of securities which seem to him to have excellent prospects, so that he might purchase any one of them alone with a good chance of profit, he can improve his position, as a rule, and increase the safety of his operations by spreading his purchases among these several different stocks.

In other words, each stock should be selected because of its good prospects for an advance, and not simply with a view to diversification of holdings, and it will usually be entirely possible to select quite a number of different stocks which in your opinion have this good prospect for higher prices.

Idle Money

In the discussion on pages 334 and 335, magazine of June 26, about the man who "did a few plain, common sense things and then stopped, until next time," the point is not covered as to what he did with his capital "between declines," or at least between selling out at a profit and buying on the next decline.—C. F.

The writer of the letter referred to did not state what he did with his capital while it was not invested in stocks. We imagine that he left it in the hands of his broker, where a small interest would usually be paid on it, or perhaps in a trust company at two per cent.

Pacific Gas—Montana Power

Would you advise a professional man with regular income to invest savings in Pacific Gas and Montana Power? What else would you suggest that may add a profit to interest? —W. W.

Pacific Gas & Electric or Montana Power bonds are satisfactory investments for you. The common stocks of the companies are not what might be termed conservative investments. They are not seasoned issues in the sense that that term is generally used.

Stock Taxes

J. C.—The commission and tax on sale of 35 shares of Steel common would be:

Commission (1/8)	$4.38
State tax	.70
United States tax	.70
Total	$5.78

The entire tax is applied on the sale of stock. When you buy there is no tax to be paid. The commission, of course, would be the same on a purchase as on a sale.

Application of Margin on Different Trades

Last April I bought on a ten point margin C. R. I. & P. at 36 and Republic Iron & Steel at 31. A few days later Rock Island suddenly dropped when the road was thrown into the hands of a receiver and when it reached 23 my broker called me on the phone and asked me for instructions. I told him to sell it and also the Rep. I. & S. at 30.

When I received a statement a few days later I found that the deficit on the C. R. I. & P. transaction had been deducted from the margin I had put up on Republic Iron & Steel. Did my broker have a legal right to do this? Can he apply the margin of one transaction on another?—H. A.

Your broker had the right to apply your entire balance with him to all your holdings together unless he was instructed to the contrary.

You could, of course, have instructed him to apply only 10 points margin to your Rock Island if you desired to do so. This would have been equivalent to putting in a stop loss order on the Rock Island at 10 points below your purchase price.

We assume from your letter that you gave your broker no special instructions in regard to the application of margin on these trades. That being the case, he followed the universal custom of brokerage houses in considering your entire balance with him as applicable on your trades taken as a whole. He would not close out any one trade until your margin on all trades taken together was approaching exhaustion.

COTTON AND GRAIN

The Summer Cotton Market

By C. T. REVERE

COTTON has now reached the stage of the season when the trade begins to take serious consideration of the new crop. Heretofore the market has been engaged in discounting the supply and demand situation of the old crop. With the report of acreage and July condition, however, the yield for the coming year naturally assumes more prominence as a factor in price making.

The report from the Bureau of Crop Estimates, published on July 1, did not meet with enthusiastic bullish response throughout the trade. The acreage figures were admittedly rather bullish, but their efficacy as a price lifting influence was somewhat nullified by the assumption that the figures might be corrected next season by another upward revision. In other words, the trade did not feel at all sure that the Department of Agriculture has not made another underestimate.

The area planted to cotton this season is estimated at 31,535,000 acres, compared with revised figures of 37,406,000 acres last season. The condition of the crop is believed to be 80.3, compared with 80 the latter part of May, 79.6 last year, and a ten-year average of 79.9.

Naturally there is a tendency to indulge in theoretical crop calculations. On the basis of the largest yield per acre on record, which was .45 of a bale per acre, the yield would prove to be slightly in excess of 14,000,000 bales. On an average production per acre. the total crop would be around 12,800,000 bales. There is nothing in the present situation to justify hopes of a maximum yield, and therefore the trade can find little warrant for assuming a production of 14,000,000 bales. The average yields of the last few years have been assisted by the bountiful use of fertilizers. This season the distribution of fertilizers has been curtailed fully 40 per cent. At present this loss is not being felt, as bountiful rains have given the plant in the Eastern belt a fairly thrifty appearance. A little later in the season, when the fruiting begins, the plant may show the lack of nourishment due to the reduction in the use of fertilizers.

Consequently, while the bearish element on the Exchange succeeded in forcing a decline after the bureau figures were published, the slump did not extend far. Considerable steadiness was manifest on a decline of twenty points from the level current just before the report was published.

Although the bears contend that it is impossible to bring about an advance in prices in the face of the huge supplies which will be carried over from last season, the bulls feel equally sure that the vicissitudes of mid-summer will produce the usual crop scares, with an attendant rise in prices. They insist that at this time the trade is inclined to overlook deficient fertilization, the spread of the boll weevil, and the possibility that certain bullish factors may develop from the international political situation.

In regard to this latter feature it is worthy of note that the British governmen gives evidence of a willingness to relax the rigor of its blockade. While cotton probably will not be permitted to go direct to Germany, and all efforts will be made to keep it away from the enemies of the Allies, it seems fairly sure that neutrals will be permitted to receive abundant supplies provided they give sufficient guarantees that there will be no re-exportation to Germany. This means that neutral nations probably will import more than they need simply as a proviso against demand in the event that the war may end earlier than expected.

Under such circumstances the bulls feel fairly confident of a substantial upturn during mid-summer. On the other hand, the bears will be inclined to sell freely on the theory that a moderate crop combined with a possible carry-

over of about 3,700,000 bales, and a residue of fully 1,500,000 bales unmarketed in the South will give a total supply for next season more than ample for the world's needs. This view, of course, is based on the assumption that the war will continue.

In other words, the bulls feel fairly confident of a temporary advance due to mid-summer crop scares, while the bears are playing a waiting game, and will operate for an extensive decline in case prices advance to an attractive selling level.

Wheat Outlook Complicated

BY P. S. KRECKER

As the old crop draws to a close an interesting situation is developing in the wheat future markets by reason of the widening spread between new and old crop positions. Thus, while last spring a substantial premium was paid for July compared with September contracts, these months selling 10 to 11 cents apart, subsequently the tendency was to wipe out this difference and the prices paid for the two positions respectively worked closer and closer together until a difference of only a little more than one cent prevailed.

But recently the tendency is to diverge and at present writing the spread between the two months has widened to 7 cents with every indication of expanding further. This sudden shift in relative values of new and old crop contracts is attributable to the marked shrinkage of the visible supply and the tardiness of the new crop movement which has been delayed by excessive rains in the Southwest where the early winter wheat comes from. At the present rate the visible supply of wheat will be the lowest at the end of the crop year in many seasons.

A circumstance which accentuates the scarcity of immediately available stocks of wheat is the poor grading of first arrivals from the new crop. This combination of circumstances has placed cash wheat in a decidedly strong position and as July is a cash month, that contract sympathizes in this strength. For the first time on record no deliveries were made on first July notice day on the Chicago Board of Trade. That position gives every indication of congestion and shorts appear to be in an unenviable situation.

Those who buy July and sell September or December with the expectation that there will be a further widening of the differences between those respective months had best bear in mind, however, that their position would be uncertain. With clearing weather new wheat would move faster than it is moving now and there would probably be increased hedge selling of July, which would tend to depress that position and narrow the differences again.

Turning to the new crop situation, it is found that this is badly muddled and exceptionally hard to diagnose. As the July 8 crop report had not been issued as this goes to press, comment cannot be made on its character, but with a probable surplus of 50,000,000 bushels as estimated by reliable authorities there is no doubt that the United States and Canada will have sufficient wheat to go around and leave a comfortable margin. In the face of that outlook there has been exceptionally little buying of new crop wheat for foreign account. Last year foreigners had bought 100,000,000 bushels of new crop wheat for delivery in September, October and December before the war broke out and 29,000,000 bushels had been actually exported before the end of July, when the war started. This year the volume of foreign buying has been insignificant.

Claims are made on this account that the British Empire has enough wheat in stocks or in sight to make it independent of foreign supplies. Of course, if this view is correct, it takes into account the exportable surplus of India which Great Britain could commandeer. However, it is a fact that England is importing foreign wheat just now, despatches recording shipments from Archangel, Russia.

That development does not suggest independence of foreign supplies. The truth probably is that European buyers see no incentive to hurried purchases at the moment and are waiting for the effect of the new crop movement in this country on prices. That exporters will be in the market with a vengeance later on is certain.

While Europe will need our wheat as badly this year as she needed it last year, a complication has arisen which interferes with the export movement. Reference is made to the decline in sterling exchange. Conditions are exactly the reverse of those which were created last fall by the outbreak of the war. Then the United States was heavily in debt to Europe and exchange rose to unprecedented heights while bankers of the world spent many days seeking ways and means of meeting American obligations to Europe without draining our supply of gold. Eventually heavy exports of wheat and cotton relaxed the pressure. Since that time an enormous trade balance has been created in our favor and now Europe is confronted with the peril of being unable to pay us for our wheat. Although Europe has shipped $120,000,000 in gold to this country and has liquidated an enormous volume of securities bankers agree that further means must be devised to enable Europe to pay us for what she will buy. The impracticability of shipping gold across the ocean is conceded and stores of the precious metal available in Canada have been exhausted. The immediate effect of the decline in exchange has been unsettling to exporters who hesitate for fear of a further decline in rates. With that market so unstable, the disposition is to await further developments before undertaking large exports. All of this concerns the immediate rather than the distant future. The present effect is to delay export buying and therefore to hold advancing tendencies in check. Ultimately international bankers undoubtedly will solve the problem, possibly by negotiating foreign loans against our exports. When such arrangements are made the export movement of wheat will begin in earnest.

Market Statistics

		Dow Jones Avgs.		50 Stocks			Breadth
		12 Inds.	20 Rails.	High	Low	Total Sales	(No. issues)
Monday,	June 21......	91.93	93.40	71.81	70.68	410,600	145
Tuesday,	" 22......	91.94	94.01	72.25	71.27	459,100	153
Wednesday,	" 23......	91.36	93.80	72.25	71.42	381,500	150
Thursday,	" 24......	89.50	93.08	71.43	70.24	439,100	146
Friday,	" 25......	89.62	93.26	71.02	70.34	267,900	138
Saturday,	" 26......	90.27	93.77	71.04	70.57	200,200	107
Monday,	" 28......	90.48	93.47	71.27	70.67	266,600	138
Tuesday	" 29......	89.64	92.55	70.97	70.12	308,100	145
Wednesday,	" 30......	89.98	92.96	70.73	70.12	223,200	131
Thursday,	July 1......	89.84	92.55	70.47	69.87	252,100	131
Friday,	" 2......	89.52	92.03	70.62	69.69	334,200	139
Saturday,	" 3......	89.11	91.88	69.87	69.25	187,100	124

How to Read the Wheat Market Letter

By JULIUS J. STRASBURGER

AN unrecognizable envelope laden with something has wormed its way to you. Curiosity and mystery prompt an immediate investigation. Soon you are confronted with a market review, worded so dogmatically that it cannot be ignored. There is really no branch of the investment or speculative enterprise that should command the same scrutiny or examination as the origin of a market letter which presupposes to be a letter of counsel concerning the employment of your funds.

A house connected with Wall Street elects to dispatch such a letter to you. Your name has been procured by their agent, from public agents, through perusal of a local directory or by other of a hundred different methods. In this informal note, the purchase of securities, grain, cotton, or some commodity is urged and arguments are presented, apparently justifying the importunities for you "to take advantage of the situation."

You are not a student of the "situation" and therefore mentally admit that all said in the letter is plausible. You are impressed and frequently fascinated. The actual stage and scenery which harbor this "situation" may be far from you, or at least, remote from your daily calling. But one who is familiar with the theme of this so-called market letter of wisdom could unquestionably, without much energy or study pick at the missile until it resembled a porous plaster.

Letters of that sort are not really a violation of the law. The thoughts expressed are a matter of opinion and of course there can be no absolute suppression of opinion in this country. Perchance, the author of a letter of this kind actually believes in what he has prepared, but in most cases, he is not of the positive mind that his words of advice to you suggest. Often he is biased and in a majority of instances, he is a scholar of psychology, playing upon the susceptibility of the speculatively inclined public.

The root of this market letter evil is the desire on the part of individuals to obtain business for their concern. They have not the acumen to realize that the prosperity of a commission house goes hand in hand with the success of a customer. Should the sender of such gratuitous market advice be impatient for commissions rather than ignorant of his unstable business policy, he is all the more culpable.

The investor or speculator should discriminate and hesitate before accepting the contents of a market letter. A simple, yet effective safe-guard for the outsider is to be more than casually acquainted with the concerns taking it upon themselves to guide you successfully. There are members of the commission house trade who delve deeply into the merits of a commodity or security, who maintain an expert staff to uncover important details and who have eyes for the profits of their customers rather than for an expansion, however brief, in their own commission returns.

True, firms of unimpeachable type and morals are apt to diagnose incorrectly, as there is no such thing as infallibility in Wall Street. They have the interests of their clients at heart, nevertheless, and with half a chance, flying colors are displayed by the members of such institutions and their clientage. Reckless literature from houses of this calibre is not to be had, guaranteed market predictions are rarities, while sound judgment is their keynote.

Very recently, advices were spread that September wheat in the Chicago market should be purchased for large profits. The flimsiest reasons were concocted and expressed to light the way for this "inevitable rise"; the most important of which was the reference to the persistent foreign buying of the option. Innumerable features could have been mentioned to defend advice to sell short the Chicago September delivery, but it was unquestionably borne in mind in this instance that a customer is more likely to buy in a market with the hope of an advance than to sell with the hope of a decline. Inexperienced and sometimes hardened traders seem to be unwarrantedly obsessed and awed with the caution so awkwardly conveyed in the shred-worn lines—"He who sells what isn't his'n, must either pay or go to pris'n."